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ECONOMIC BULLETIN FOR EUROPE

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ECONOMIC BULLETIN FOR EUROPE

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UNITED NATIONS

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The *Bulletin* is published entirely on the responsibility of the Secretariat of the Economic Commission for Europe, and its contents, which are intended for the use both of Governments and of the general public, have not been submitted to the Member Governments of the Commission before publication.

Previous issues of the *Bulletin* have contained a section entitled " Supplementary Statistics ", in which were reproduced the latest available figures on a wide variety of subjects, including the industrial production, employment and foreign trade of western European countries. In view of the fact that most of these series are now available in other publications—especially the *Monthly Bulletin of Statistics*, published by the United Nations, New York, and the *Statistical Bulletins* of the Organization for European Economic Co-operation, Paris—it has been decided to cease the regular publication of these series in the *Economic Bulletin for Europe*. From time to time the *Bulletin* will continue to publish appendix tables on subjects of current interest, on which statistical data are not readily available from other sources.

SYMBOLS EMPLOYED

The following symbols have been used throughout this BULLETIN :

.. = not available or not pertinent.
— = nil or negligible.
* = estimate by the Secretariat of the Economic Commission for Europe.
• = revised figure.

In referring to combinations of years, the use of an oblique stroke—*e.g.*, 1953/54—signifies a 12-month period (say from 1 July 1953 to 30 June 1954). The use of a hyphen—*e.g.*, 1950-54—signifies an average of the full period of calendar years covered (including the end years indicated).

Unless otherwise indicated, the standard unit of weight used throughout is the metric ton. The definition of " billion " used throughout is one thousand millions. Minor discrepancies in totals and percentages are due to rounding.

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CURRENT ECONOMIC DEVELOPMENTS IN EUROPE

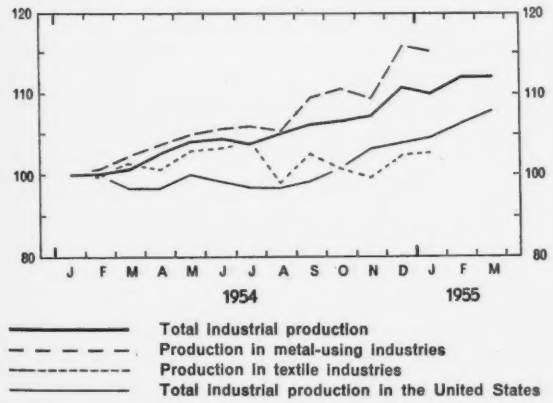
1. The Economic Situation in Western Europe

In the early months of 1955 the economic upswing continued unabated in virtually all countries of western Europe. There were, however, increasing signs of divergent trends in the different sectors. After the slackening in the coal and steel industries at the beginning of 1954 had been overcome, output expanded at fairly uniform rates in nearly all sectors of the western European economy, although one of them, that of durable consumer goods, had shown a much more rapid growth than industry as a whole. But in the autumn months activity in the textile industry levelled off (see Chart 1) while a pronounced investment boom gave further stimulus to the production of industrial equipment. Since the same skilled labour and raw materials are required for many investment goods industries and for the production of consumer durables, demand pressure on these resources, in particular skilled mechanics and steel, increased.

Chart 1

INDUSTRIAL PRODUCTION IN WESTERN EUROPE [a] AND THE UNITED STATES

Index numbers, January 1954 = 100
Adjusted for seasonal variations



[a] For total industrial production the following countries have been combined: Austria, Belgium, Denmark, France, western Germany, Italy, the Netherlands, Norway, Sweden and the United Kingdom. For production in metal-using and textile industries the following countries have been combined: Belgium, France, western Germany, Italy and the United Kingdom.

Similarly, increasing competition for available resources of skilled labour and materials can be foreseen in the building industry, where greatly increased investment in factory and commercial building comes on top of high activity in the construction of dwellings. During the winter, however, the pressure has been moderated by the seasonal lull in housebuilding.

Certain special circumstances contributed to the divergence of trends as between sectors. The prospect of rearmament in western Germany must have accelerated the placing of orders for civilian purposes, in order to ensure delivery before rearmament got under way. Increased competition from India and Japan contributed to the unfavourable development in the textile industries. But the basic explanation for the divergent trends between sectors is to be found in factors of a more general nature. First, the expansion of activity which had continued for more than a year inevitably affected investment decisions. The growing optimism among business-men, which the western European upswing aroused, was reinforced by the revival of activity in the United States, where production started going up in October 1954.

The rapid increase in European production in the course of 1954 seems to have been accompanied by a considerable rise in profits, even though prices remained fairly stable, because of the better utilization of capacity and because the upswing had not yet been reflected in major wage increases. In a number of countries, wage-earners' incomes increased less than profits and nearly everywhere the unfavourable harvest impaired the purchasing power of farmers in spite of some rise in food prices. Because of the increasing food prices, food may have taken an increasing share of total consumers' outlay. The boom in durable consumers' goods must also have meant a decline in the proportion of consumption devoted to other things. In these circumstances, European demand for textiles could not provide a sufficient offset to the decrease in exports, and production and employment levelled off or declined in nearly all countries. The most recent information about sales of textiles and of durable consumer goods, as shown in Table 1, conveys the impression that the boom in durable

Table 1

SALES OF DURABLE CONSUMER GOODS AND TEXTILES

Changes from third quarter 1954 to fourth quarter 1954 (A) and from fourth quarter 1954 to January–February 1955 (B) as compared with the average changes in the corresponding periods of the two preceding years

	Passenger cars		Motor-cycles		Total household goods		of which :								Textiles and clothing	
							Electrical appliances		Hardware		Furniture		Household textiles			
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
United Kingdom . . .	105	84	109	128[a]	100	98	100[b]	99[b]	99	97	100	97	105	98	100[c]	98[c]
Denmark	89	91	..	..	..	..	..	..	..	..	91	..	98[d]	..	97	..
Sweden	120	62	..	..	103	..	102	..	99	..	102	..	100[d]	..	103	..
Netherlands	..	..	..	..	107[e]	..	108	..	..	..	110	..	101[d]	..	106	..
Belgium	..	..	..	..	..	..	98	113[a]	97	98[a]	96	105[a]	96	98[a]	..	..
France	103	112	95	102	..	..	..	..	..	..	..	..	..	..	..	..
Western Germany . .	101	102	123	..	103	101	98	103	106	100	97	105	104[d]	103[d]	106	100
Switzerland	94[f]	110[g]	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Austria	135	109	87	99	103	99	..	..	94	102	100	97	..	..	114	101
Italy	82	75[a]	..	..	..	..	..	..	..	..	..	..	..	..	..	..

NOTE.—Figures for passenger cars and motor-cycles are based on available supplies to the home market (United Kingdom, France, western Germany, Italy); new registrations (Austria, Sweden); imports (Denmark) and value of sales (Switzerland).

For the other sectors shown, the figures are based on retail sales at current prices with the exception of total sales of household goods in western Germany, the Netherlands and Sweden, which are based on volume of consumption data or retail sales at constant prices.

[a] Change from fourth quarter 1954 to January 1955.
[b] Hardware, radio and electrical goods.
[c] Clothing and footwear.
[d] Included in the total for textiles and clothing and not in the total for household goods.
[e] Total durable consumer goods.
[f] Change from September to December.
[g] Change from December to February.

consumer goods is beginning to level off. Sales of durable goods do not any longer seem to be advancing faster than sales of textiles, and in some countries sales of motor vehicles showed a rather unfavourable development in January and February compared with those of previous years.

The weakening in textile exports did not prevent a continuation of the general expansion of the trade of Continental European countries towards the end of 1954 and in the first months of 1955, when the volume of exports, as well as imports, continued to increase, as shown by Chart 2. The disturbing influence of the dock strike in the autumn of 1954 makes it difficult to determine whether the development of British exports has been as favourable as that of Continental European countries. In one respect, however, the United Kingdom has been at a disadvantage compared with Continental Europe: while prices in foreign trade on the import as well as on the export side generally showed a remarkable stability throughout the year 1954 and even in the first months of 1955, British import prices began to increase already in the autumn of 1954. Moreover, the volume of imports increased more than the volume of exports. This, together with a deterioration in the payments position of some of the other sterling area countries and some capital transactions, caused a sudden reversal of the balance-of-payments position of the sterling area towards the end of 1954.

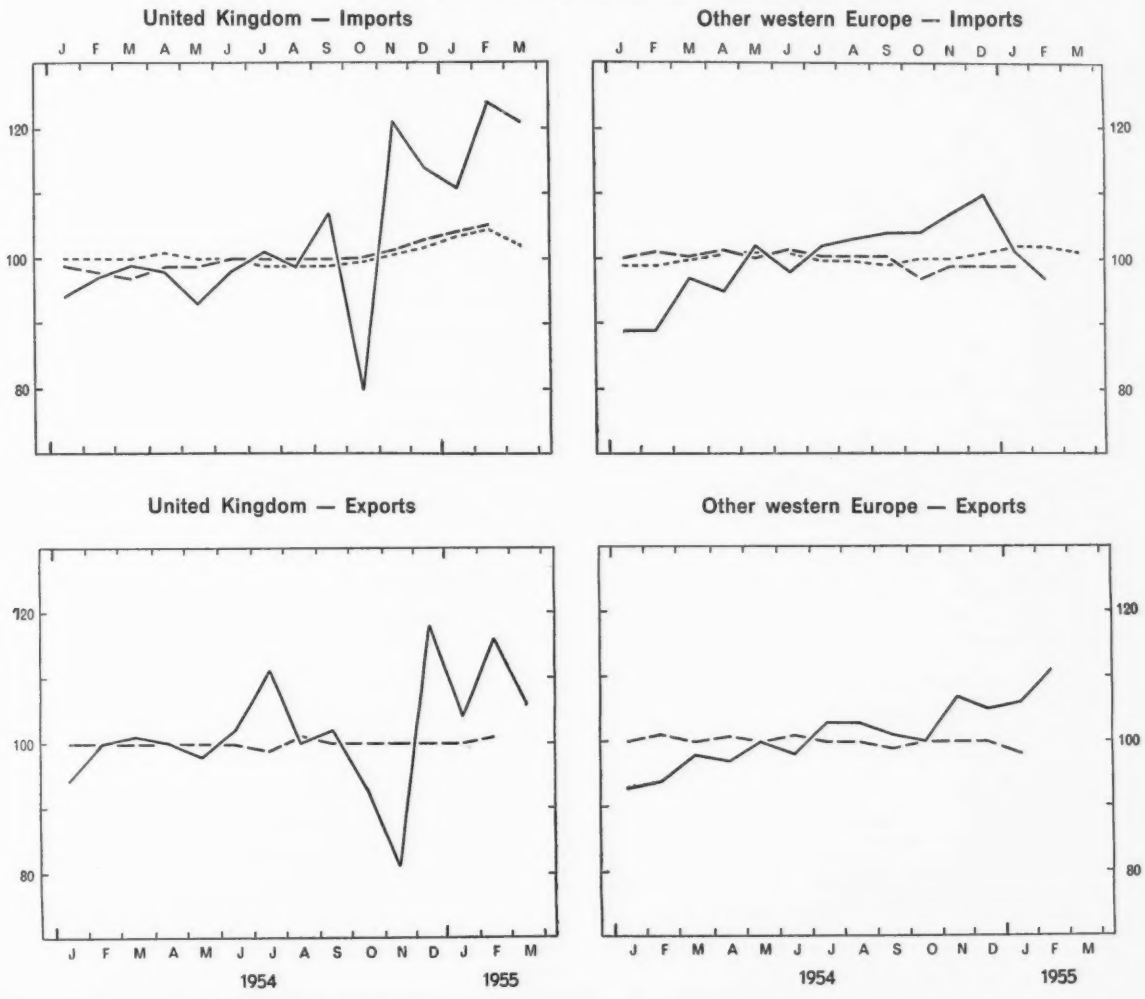
The stability of import prices during the winter of 1954/55 was the result of conflicting tendencies. For certain products such as coffee, cocoa, tea and copper, special factors made for great instability in prices but, in general, the international price situation reflected the divergent tendencies in the general upswing: prices of some basic materials mainly used in the investment and durable consumer goods sector showed tendencies to increase while raw materials for other consumer goods industries, and especially textile fibres, showed a weakening tendency. Under pressure of large stocks, particularly in the United States, food prices on the world market remained stable or tended to decline during the winter and spring. Owing to the continued weakness in the markets for most of the products exported by the Asian and Latin American countries, their export earnings did not allow for any large increase in imports and, during the winter, European overseas exports therefore rose only moderately, as shown by Chart 3, while the upswing inside Europe caused a very rapid increase in the value of intra-European trade.

Chart 2

VALUE AND AVERAGE PRICES OF IMPORTS AND EXPORTS OF THE UNITED KINGDOM AND OTHER WESTERN EUROPEAN COUNTRIES [a] AND WORLD-MARKET COMMODITY PRICES

Index numbers, average 1954 = 100

Import and export values adjusted for seasonal variations


United Kingdom — Imports
Other western Europe — Imports
United Kingdom — Exports
Other western Europe — Exports
J F M A M J J A S O N D J F M
120
100
80
1954
1955
Total values in current prices
Average import and export prices (unit values)
World-market commodity prices (United Kingdom: Reuter's index; other western Europe: Schultze index).

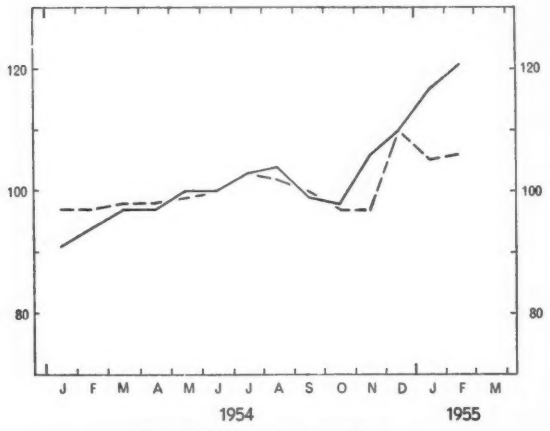
[a] Austria, Belgium-Luxembourg, Denmark, Finland, France, western Germany, Italy, the Netherlands, Norway, Sweden, Switzerland and Turkey.

With relatively few exceptions, retail prices and cost-of-living indices showed a stability similar to that of prices in foreign trade. Apart from the increases in domestic food prices and some increases in rent in certain countries, which reflected a policy aiming at the gradual abolition of rent control, changes in cost-of-living indices were very small in nearly all countries in the last months of 1954. During the first months of 1955 cost-of-living indices either ceased to rise or declined in all the countries listed in Table 2 except Sweden. Improvements in the supply situation, partly due to more liberal import policies, account for most of the changes, while a seasonal decline in certain food prices provides a minor part of the explanation.

Chart 3

VALUE OF EXPORTS FROM WESTERN EUROPEAN COUNTRIES [a] TO EUROPEAN AND OVERSEAS COUNTRIES

Index numbers, average 1954 = 100
Adjusted for seasonal variations



[a] Austria, Belgium-Luxembourg, Denmark, Finland, France, western Germany, Italy, the Netherlands, Norway, Sweden, Switzerland, Turkey and the United Kingdom.

In general, therefore, the winter of 1954/55 must be characterized as a period of continued " quantity boom " with a rather remarkable stability of prices both at the wholesale and retail levels.[1] The main exceptions to this statement are to be found in tramp freights, which increased considerably in late autumn, and prices of certain basic materials, mainly for the investment goods sector. It may seem surprising, on the basis of this price situation, that there should have been towards the end of the winter so much concern about a threatening inflation as was actually the case. The fact that the United Kingdom price situation was somewhat less stable than that of most other countries provides probably one element in the explanation because of the leading role of the United Kingdom in economic developments. Moreover, the intake of new orders, in particular in the steel and engineering industries (see Table 3), continued to be so large that shortages of capacity and materials with resulting upward pressure on prices seemed imminent.[2]

More important, however, was the fact that there was a general feeling that price stability could not last for much longer even in industries where capacity

[1] The phrase " quantity boom ", derived from the German concept of " Mengenkonjunktur ", is used to describe the phase of an upswing during which supply elasticities are sufficient to permit an expansion of the volume of production without appreciable effect on prices and wages.

[2] The very high intake of new orders for the home market in western Germany in December 1954 was, however, influenced by the expiration at the end of the year 1954 of the law granting preferential rates of depreciation.

Table 2

CHANGES IN COST-OF-LIVING INDICES

Average monthly percentage increase or decrease

Country	Food		Rent		Others		Total		
	Oct.-Dec. 1954	Dec. 1954-Feb. 1955	Oct.-Dec. 1954	Dec. 1954-Feb. 1955	Oct.-Dec. 1954	Dec. 1954-Feb. 1955	Oct.-Dec. 1954	Dec. 1954-Feb. 1955	Feb.-Mar. 1955
United Kingdom	0.9	—	0.3	0.2	0.2	0.3	0.5	0.2	—
Denmark	0.4 [a]	..	2.0 [a]	..	0.6 [a]	..	0.6 [a]	..	..
Norway	0.6	−1.2	—	—	0.2	−0.3	0.4	−0.7	—
Sweden	0.4	—	—	0.4	−0.2	−0.1	—	—	0.8
Finland	−3.7	0.5	0.3	—	−2.7	−0.5	−2.9	—	—
Netherlands	0.5	0.9	—	—	0.5	0.2	0.5	0.5	—
Belgium	—	−0.8	1.5	0.8	—	−0.3	0.1	−0.5	−0.3
France	0.9	−0.1	—	2.6	0.5	0.1	0.7	—	−0.1
Western Germany	0.3	−0.3	—	—	0.4	−0.4	0.3	−0.3	—
Austria	0.5	0.7	—	—	—	0.5	0.3	0.6	−0.8
Switzerland	0.1	−0.7	0.7	—	—	—	0.1	−0.3	−0.1
Italy	0.3	−0.3	1.0	1.1	0.1	−0.2	0.3	−0.1	..

NOTE. — In western Germany, Norway, Sweden and the Netherlands, percentage increases or decreases are based on rounded original indices, and hence the magnitude of the fluctuations shown may be under- or over-stated.

[a] October 1954–January 1955.

Table 3

INDEX NUMBERS OF ORDERS RECEIVED AND OF THE STOCK OF ORDERS IN INDUSTRY

Fourth quarter 1953 = 100

Index numbers of the stock of orders are shown in italics

Country and industry		Index based on	1954 October	1954 November	1954 December	1955 January	1955 February
Steel mills							
Belgium		Value	120	139	134	129	125
Western Germany		Volume	202	223	224	192	..
Italy		,,	146	159	192	..	..
Saar		Value	*146*	*178*	*189*	*204*	..
Austria		Volume	*101*	*121*	*139*	*154*	*177*
European Coal and Steel Community		,,	162	175	188	160	154
		,,	*159*	*174*	*191*	..	..
Metal-using industries							
Belgium :	Shipbuilding	Value	87	104	318	173	100
	Machinery	,,	116	116	138	116	110
	Vehicles	,,	108	110	117	130	144
	Electrotechnical equipment	,,	90	85	121	94	85
	Heavy engineering	,,	124	118	121	101	116
	Total metal-using (excluding shipbuilding)	,,	97	98	108	105	98
Western Germany :	Machinery	Volume	135	154	220	139	..
	Vehicles	,,	138	145	135	151	..
	Electrotechnical equipment	,,	122	130	214	126	..
	Total metal-using industries	,,	129	141	176	135	..
	of which : home	Value	124	136	184	135	..
	export	,,	168	184	164	161	..
West-Berlin :	Machinery and vehicles	Volume	99	125	135	135	..
	Electrotechnical equipment	,,	125	129	210	196	..
	Total producer goods industries	,,	114	129	177	170	..
United Kingdom :	Machine-tool orders	Value	*95*	*107*	*108*	..	..
	Total metal-using industries			unchanged		..	..
Austria :	Investment goods	Volume		strongly increasing			
France :	Total metal-using industries	Volume	..	*up*	..	..	..
Italy [a] *:*	Shipbuilding	Volume	—	(—)	(+)	(+)	=
	Machine-tools	,,	=	=	=	=	(—)
	Vehicles	,,	+	+	=	=	=
	Electrotechnical equipment	,,	—	—	—	—	—
Sweden :	Shipbuilding	Volume			*unchanged*		
	Metal manufactures	,,			*slightly down*		
	Machinery	,,			*slightly down*		
	Electrotechnical equipment	,,			*slightly down*		
Other Industries							
Western Germany :	Textiles	Volume	111	116	95	120	..
	of which : home	Value	109	115	93	119	..
	export	,,	122	111	99	102	..
	Clothing	Volume	128	118	94	144	..
	Shoes	,,	78	142	105	98	..
Austria :	Consumer goods	Volume			increasing		
France [b] *:*	Cotton yarns	Volume	*106*	*96*	*90*	*79*	..
	Cotton cloth	,,	*109*	*111*	*104*	*94*	..
	Paper	,,	..	..	*111*	*110*	..
Italy [a] *:*	Cotton textiles	Volume	—	—	—	—	—
	Artificial fibres	,,	=	=	=	=	=
	Shoes	,,	—	—	—	—	—

Sources : Austria : *Monatsberichte des Österreichischen Institutes für Wirtschaftsforschung*, Vienna. France : *Etudes et conjoncture*, INSEE, No. 3, 1955, and information received directly from the Ministère de l'Industrie et du Commerce. Italy: *Sintesi Economica*, Unione Italiana della Camera di Commercio, Industria e Agricultura, Vol. VI, Nos. 11 and 12, and Vol. VII, Nos. 1 and 2. United Kingdom: *Economic Survey*, 1955, and *Monthly Digest of Statistics*; for the remaining countries, see *Economic Bulletin for Europe*, Vol. 6, No. 3, Table 16.

[a] The signs indicate the volume of the stock of orders in the month as related to what is considered the normal level, as follows :

— small (+) slightly above normal
(—) slightly below normal + abundant
= normal

[b] Index numbers based upon the end of December 1953 = 100.

utilization was less tight, because the improved employment situation and high profits made labour less and less inclined to show restraint in wage demands. Even where profits were high, there was the danger that the sellers' market would permit employers to pass on wage increases to consumers and, with the linking together of prices, wages, and in some countries agricultural prices too, this might start off a cost inflation. Moreover, export markets for industrial manufactures were at the end of the winter definitely less buoyant than home markets in most western European countries. The threat of substantial wage increases, leading to increases of prices, has thus created a fear of loss of markets and balance-of-payments difficulties. In fact, in some countries the balance of payments had already begun to deteriorate in the latter half of 1954. There was therefore a fairly widespread movement to curb expansion in the early months of 1955, in addition to the steps already taken in 1954.

2. Emergence of Bottlenecks in Production of Basic Materials and Shipping

The Supply of Energy

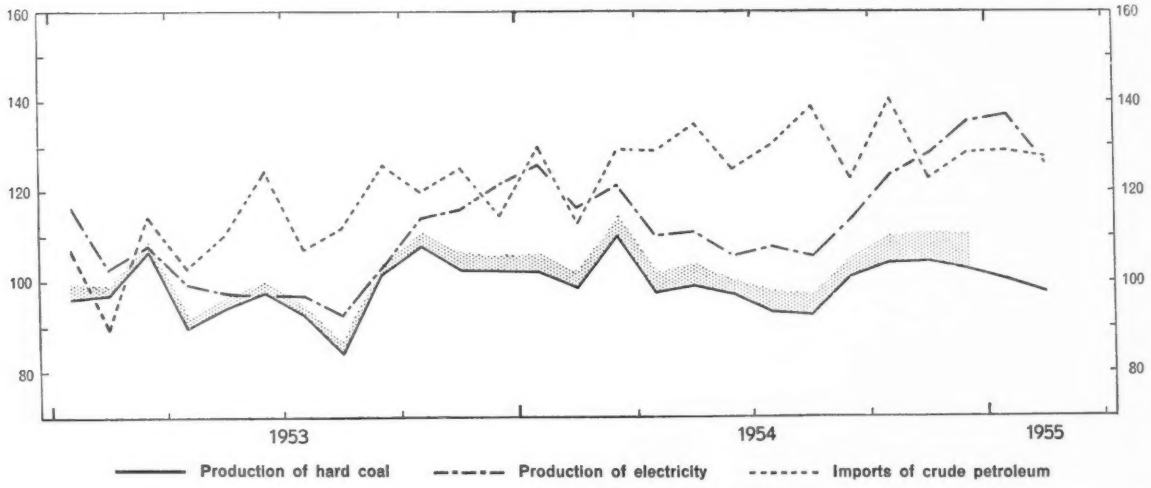
The outstanding feature of the supply of energy in western Europe is the inflexibility of coal production. In spite of the increase in demand for energy caused by the continued expansion in economic activity, coal production, apart from seasonal fluctuations, has remained virtually constant at a level not higher than that of 1952, although slightly higher than in 1953, as can be seen from Chart 4. During the winter of 1954/55, therefore, western Europe again became dependent to an increasing degree on imports from the United States while less coal was available from Poland. A much larger contribution to the increasing demand for energy was provided from other sources. With expansion in capacity, production of hydro-electricity in 1954 rose 9 per cent over the level of the previous year and an 11 per cent rise in production of thermal electricity also made a net contribution by permitting, in some cases, a more efficient utilization of coal. The most rapidly expanding element in European energy consumption was provided by mineral oil, the consumption of which in western Europe seems to have increased by some 13 per cent from 1953 to 1954.[1] In Italy the production of natural gas rose still more rapidly and accounted for nearly half of the total growth in energy consumption between 1953 and 1954.

[1] Kerosene excluded.

Chart 4

PRODUCTION OF COAL AND ELECTRICITY, AND IMPORTS OF CRUDE PETROLEUM IN MAJOR WESTERN EUROPEAN COUNTRIES [a]

Index numbers, monthly average for 1952 = 100



NOTE: The height of the shaded area shows for any one month net imports of coal into western Europe as a percentage of coal production.

[a] Belgium, France and the Saar, western Germany, Italy, the Netherlands and the United Kingdom.

Table 4

CHANGES IN EMPLOYMENT IN COAL-MINING

Percentages

Country	Dec. 1951 to Dec. 1952	Dec. 1952 to Dec. 1953	Dec. 1953 to Dec. 1954
United Kingdom . .	3.3	−1.5	−0.6
Western Germany .	4.2	2.6	−1.6
France	−2.9	−5.9	−3.6
Belgium	−0.6	−3.7	−4.5

NOTE. — The basic figures for employment refer to hard-coal mining and include both underground and surface workers.

The main reason for the lack of flexibility in European coal production is to be found in the manpower situation; the labour force in the mines declined in all of the important coal-producing countries, as can be seen from Table 4, and it is only in France that this reduction was the result of measures taken to increase productivity. Neither in Belgium nor in western Germany was it possible later in the year to recruit sufficient labour to the mines to compensate for the reduction made in the slack period at the beginning of 1954. In the Ruhr there was some improvement in the situation at the beginning of 1955 because of the seasonal slackness of employment elsewhere, but it remains to be seen if the 9 per cent wage increase granted in April is sufficient to prevent a new decline in the number of miners later in the year. In the United Kingdom, where big efforts were made to improve recruitment for the mines, the decline in the number of miners was lower than in the other countries although the overall employment situation was much more tight. The fact that manpower at the mines actually declined, and that the number at the end of the year was 12,000 below the desired target, was, however, a big disappointment. It had been hoped at the beginning of 1954 to raise coal production by 2½ per cent during the year; in fact, the increase came out at less than 1 per cent and in the first months of 1955 output was running at a lower rate than a year before.

The United Kingdom has been becoming more and more dependent on imports of coal from America and from the Continent and has been cutting back exports. Western Germany has, on the other hand, been able to reduce its coal imports, particularly from America, and to increase exports considerably. The result is that, while British net exports of coal declined from 8 million tons in the first half of 1954 to 6 million tons in the second half, western German net exports rose from 7 million to 10 million tons. Western Germany has now replaced the United Kingdom as the leading net exporter of coal in western Europe.

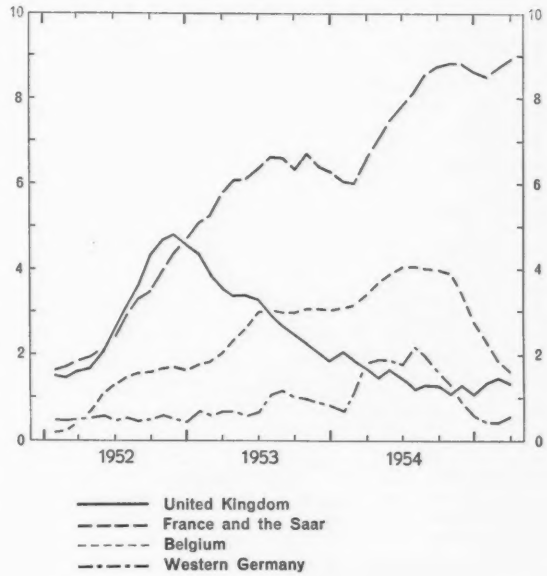
The reasons why energy supplies have become much more scarce in the United Kingdom than on the Continent are, first, that there were smaller stocks to draw upon and, secondly, that the shift from coal to other sources of energy has been less pronounced. Since there was in the United Kingdom no parallel to the period of sales difficulties faced on the Continent in the winter of 1953/54,[1] the continued rise in British activity in 1954 had to take place on the basis of fairly low stocks of coal. As can be seen from Chart 5, pithead stocks of coal had been regularly declining since the end of 1952, and at the middle of 1954 distributed stocks also started to fall below the normal seasonal level. At the end of March 1955 stocks were nearly as small in relation to consumption as during the serious coal shortage in March 1951. Although the increase in consumption of mineral oil seems to have accounted for roughly one-quarter of the increase in energy consumption from 1953 to 1954, an acute

[1] See SURVEY for 1954, Chapter 1, page 21.

Chart 5

PITHEAD STOCKS OF COAL IN MAJOR PRODUCER COUNTRIES

Millions of tons (end-of-month figures)



energy shortage was prevented only by a rapid increase in imports. During the first two weeks of March coal imports were nearly as great as exports and total imports in the first quarter nearly equalled the figure of 3 million tons for the whole of last year. Continued large imports will be required during the summer months in order to build up stocks to a satisfactory level by the beginning of next winter.

In Belgium and France large pithead stocks provided a considerable reserve on which consumption in the common market of the European Coal and Steel Community [1] could draw during the winter of 1954/55.[2] From the middle of 1954 a reduction of pithead stocks took place in Belgium and in western Germany, but in France they continued to accumulate during the winter and, although most of these stocks are of low quality, nearly 3 million tons are described as of good quality. The situation in France is so far from involving any shortage of energy that an agreement has even been made to limit the sales of fuel oil in 1955 to a level only slightly above that of 1954. In western Germany, on the other hand, pithead stocks have now been drawn down, so that they are at the lowest level since the end of 1951. Stocks held by industry, the railways and public utilities have also been moving gradually down but they are still at a safe level and no real coal shortage has appeared. In western Germany, the relative increase in oil consumption was much larger than in other countries. The consumption of gas, diesel and fuel oil [3] was as much as 37 per cent higher in the second half of 1954 than in the second half of 1953. Although oil products have supplied the bulk of the increase in total western German energy consumption during the past two years, the share of oil in western German fuel consumption is still lower than in any other western European country.

Increasing costs pushed up coal prices in the United Kingdom somewhat during the year 1954, and in view of the recent revision of the wage structure and the increasing dependence on imported coal, which has to be subsidized by the Coal Board, it seems unavoidable that coal prices should increase further. After the rise in wages, west German coal producers have asked the permission of the High Authority to put up their prices. In France, on the other hand, a small decrease in prices in order to facilitate the disposal of pithead stocks has recently been agreed with the High Authority. On export markets, the increasing pressure of demand on coal has caused some increases in prices.[4] There has been a considerable margin for raising export prices of European coal because the large shipments of coal over the Atlantic, which came at a time when shipments of cereals and scrap were also unusually heavy, caused a sharp increase in tramp rates.

Problems of Steel Supply

Steel production in western Europe has reacted more favourably to increased demand than has coal production but, since the scope for the use of substitutes for steel in the short run is much smaller than for coal, shortage of steel may become a much more important obstacle to further expansion than coal. It is as true for steel as for energy that there is much more of a real shortage in the United Kingdom than elsewhere. This is mainly because steel supplies have continuously been rather tight in the United Kingdom, even during the 1952/53 engineering recession, while on the Continent there was a crisis in the steel market in the winter of 1953/54.[5] In the United Kingdom steel production has expanded less than engineering production in the post-war period, while the falling behind of expansion of engineering capacity in France, in relation to the rapid expansion in steel capacity under the Monnet Plan, has left France with a considerable reserve of steel on which the other European Coal and Steel Community countries can draw.

In the United Kingdom the bringing into operation of new steel capacity had made it possible to reduce dependence on imports in the summer of 1954, but later in the year the situation was reversed. The strong upswing in the metal-using industries raised steel consumption in these industries faster than total steel supplies to the home market. Producers' stocks of steel fell much more sharply than is usual for the season, as can be seen from Chart 6. From the chart it also appears that consumers' stocks were considerably reduced during the winter of 1954/55. Already in 1954 some measures were taken to relieve the situation by the freeing of imports of those types of steel for which the demand was exceptionally heavy, and in January 1955 these measures were supplemented by a suspension of import duties on practically all steel products until September 1955 or March 1956, when it is hoped that the bringing into operation of new capacity will help to relieve the situation.

[1] Consisting of Belgium, Luxembourg, France and the Saar, western Germany, Italy and the Netherlands.

[2] There were also large stocks of coke in western Germany, where stocks of coke at coke ovens, which amounted to 4 million tons a year ago, were reduced to 2 million at the end of 1954 and to half a million at the end of March 1955.

[3] Excluding refinery consumption and bunkers.

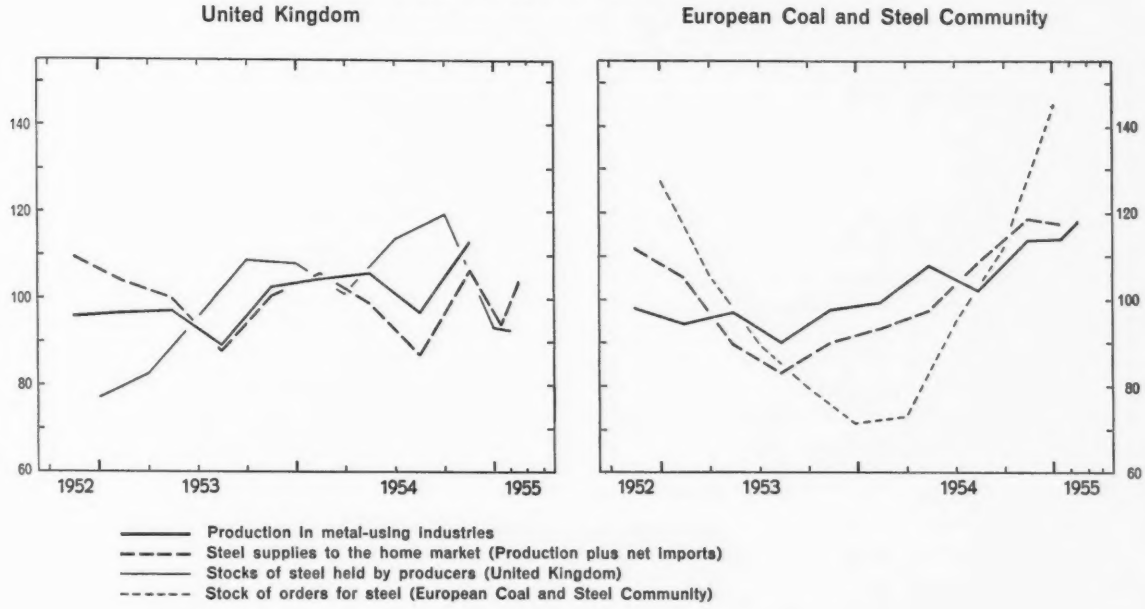
[4] Thus, for instance, Polish export prices to Sweden have gone up nearly 30 per cent as a result of increases first in the autumn and then in March, and British export prices for gas coal increased 6 per cent in January. Western German export prices, on the other hand, seem to have remained very stable.

[5] See the SURVEY for 1954, Chapter 1, pages 19-21.

Chart 6

PRODUCTION IN METAL-USING INDUSTRIES, SUPPLIES OF STEEL TO THE HOME MARKET, AND STOCKS AND ORDERS OF STEEL IN THE UNITED KINGDOM AND IN THE EUROPEAN COAL AND STEEL COMMUNITY

Quarterly index numbers, average for the period October 1952 to December 1954 = 100
(End of quarter figures for stocks and orders)



On the Continent there were considerably more reserves available to meet the expansion of steel demand because of the recession in 1953/54. Production, therefore, could increase much more than in the United Kingdom. Information about steel stocks on the Continent is extremely unsatisfactory but it would seem that stocks in the early part of 1954 were so big that, although their decline may have started earlier than in the United Kingdom, their exhaustion would necessarily take longer. In France consuming industries seem to have continued to increase their stocks during 1954. Orders for steel went up extremely steeply in the Community countries and in December the total stock of orders surpassed the level reached before the beginning of the 1952-53 engineering recession. However, part of the orders, at least in western Germany, are for later delivery and it may well be that the boom in orders to a considerable extent reflects fear of coming shortages and not present demand.

While steel capacity is thus, at the present stage of the upswing, a more serious bottleneck in the United Kingdom than on the Continent, there is in both areas already a pronounced shortage of capacity for pig-iron production which has shown itself partly in some increase of pig-iron imports, including some imports from the Soviet Union, but predominantly in a strong upward pressure on scrap prices. Pressure on scrap prices has been increasing since the middle of 1954—they have gone up 24 per cent in the United Kingdom and from 35 to 70 per cent on the Continent. The scrap shortage in Europe at the end of 1954 could be relieved by imports from the United States, where demand for scrap was running low because of the slack in the steel industry, but, with the recovery of steel production in the United States, restrictions have been tightened on scrap exports to Europe.[1] It is apparent that the increasing home demand for scrap in the United States will set an upper limit for the further immediate growth of European steel production resulting from the fact that it takes about two years to install new capacity for the production of

[1] Although no quotas have so far been fixed for regular exporters, controls have been established to prevent firms not at present engaged in the trade from exporting scrap.

pig-iron. The shortage in pig-iron capacity is particularly to be regretted in that supplies of iron ore are capable of expansion at short notice both in a number of European and in many overseas countries. As a consequence, iron ore prices have remained stable except for a minor increase at the New Year in French prices. The shortage of pig-iron is more serious in the Community countries than in the United Kingdom because, as shown in Table 5, steel production in these countries went up more than in the United Kingdom and pig-iron production rather less.

Table 5

PRODUCTION OF STEEL AND PIG-IRON AND CONSUMPTION OF SCRAP [a]

Index numbers, first half 1953 = 100

	1953	1954	
	Second half	First half	Second half
European Coal and Steel Community [b]			
Production of crude steel	93	99	114
Production of pig-iron	87	90	106
Consumption of scrap	94	105	119
United Kingdom			
Production of crude steel	95	105	100
Production of pig-iron	101	108	106
Consumption of pig-iron	93	103	98
Consumption of scrap	98	108	102

[a] In blast furnaces and steelworks.

[b] Belgium, Luxembourg, France and the Saar, Western Germany, Italy, Netherlands.

The system of equalizing import prices and home market prices in the United Kingdom makes it possible to limit the effects of the scrap shortage on steel costs, but, on the Continent, the increase in scrap prices provides a serious danger to the future stability of steel prices. Steel prices have already moved up by a few per cent on home markets both in the United Kingdom and in the Community, where some rebates have been discontinued, but the pressure on prices is continuing. Steel prices on export markets have also increased but do not seem to deviate much from home market prices, [1] while British export prices, which have increased by 15 to 20 per cent over the last year, are now some 15 to 30 per cent above domestic prices. It is possible that the Continental steel export cartel, for fear of providing ammunition to its critics who want the High Authority to take a stronger attitude towards the cartel, will show some restraint in raising prices. But if, with the revival of activity in the United States and increasing shortage in Europe, world markets for steel become even more buoyant than they are to-day, the steel exporters in the Community are unlikely to continue to refrain from taking advantage of the opportunities of this situation.

In the British *Economic Survey*, issued in March 1955, concern is expressed about the steel shortage in the United Kingdom. Increasing steel imports are deemed inevitable as a basis for continued economic expansion. No particular difficulty in obtaining them appears to be contemplated. If, however, demand for steel in Europe and the United States continues to expand, it is doubtful how long this position will last. Under the influence of the exceptional boom in the output of motor-cars, United States steel production reached 95 per cent capacity utilization at the beginning of April (as against 60 per cent last summer) and orders are being placed in Europe.

The Effects of the Boom on Shipping and Shipbuilding

The coincidence of the boom in western Europe with a period of relatively weak economic activity in the United States had two favourable effects: it kept prices of overseas raw materials relatively stable and it permitted Europe to supplement its own scarce supplies of certain basic materials with extraordinary supplies from the western hemisphere. The increasing reliance on American coal and scrap has already been mentioned and so have the increased grain imports in the winter of 1954/55. In the field of pulp and paper, also, increased supplies from the western hemisphere have helped to keep prices relatively stable in spite of expanding consumption and full utilization of the existing capacity in the European exporting countries. Developments in the case of timber have been less favourable. Scandinavian export prices went up by 10 per cent during the year 1954, protected as they were from overseas competition by the increasing Atlantic freight rates. The fear of a further rise led, in February 1955, to concerted action on the part of European buyers to fix informal maximum prices. It may be difficult to hold the position, for western Germany has recently become a considerable net importer, while Austria, in order to keep down internal prices, has introduced export restrictions which are designed to reduce the volume of timber exports in 1955 by roughly 20 per cent.

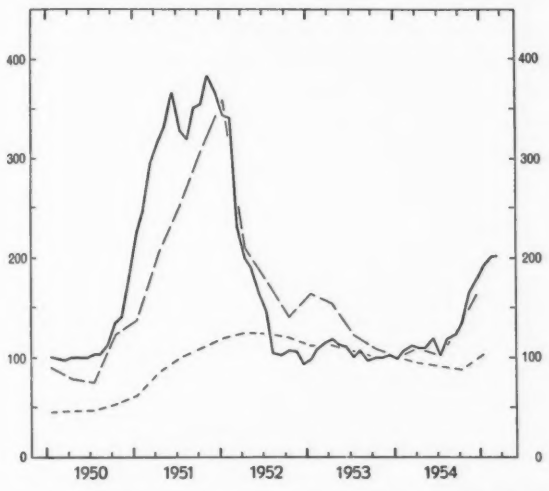
The rise in tramp rates, caused by the increased shipments over the Atlantic, levelled off in the spring

[1] It is reported, however, that actual quotations are often higher than the official minima. See *Konjunkturberichte des Rheinisch-Westfälischen Instituts für Wirtschaftsforschung*, Essen, 1955, Heft 1.

Chart 7

FREIGHT RATES, PRICES OF SECONDHAND SHIPS AND SHIPBUILDING ORDERS

Index numbers, end of 1953 = 100



Freight rates (*Norwegian Shipping News*' time charter index)
Prices of secondhand ships (*Fairplay*'s index)
Shipbuilding orders in world shipyards : work under construction and orders in hand (*The Bulletin*, American Bureau of Shipping)

of 1955, as shown by Chart 7. Meanwhile, liners have become more competitive, and the demand for liner space has risen considerably. This has probably been an important element in the decisions to raise conference rates some 7 to 15 per cent, mostly from February, March and April, although the nearly unanimous reason given for the increase is the rise in operating costs.

The increasing freight rates during the autumn resulted in a new wave of orders to the shipbuilding industry, which had, on the whole, seen its order lists shortened over the last two years. By the combined effects of the wave of new orders and the granting of Government subsidies to equalize costs, it seems that the difficulties of Italian shipbuilding have been overcome. In the major western European shipbuilding countries, employment in the shipyards seems now assured for some two or three years ahead provided that there is no massive cancellation of orders. Most of the new orders have been for dry-cargo ships and even some orders for tankers were converted into orders for dry cargo. Building of tankers has been very large in recent years and the new ships are much faster than the old ones so that the effective carrying capacity increases more than the tonnage. If all the new tankers now under construction or on order are completed, carrying capacity may well outstrip the rise in the demand for oil transport over the next few years, even if oil consumption continues to expand rapidly. It is therefore to be expected that shipyards will increasingly have to shift from building tankers to building dry-cargo ships.

With a length of order books of about two years, it may seem surprising that new orders respond so closely to movements in freight rates caused by temporary factors, such as the present boom and the bad harvest. The connecting link may be provided by prices of secondhand ships. Shipowners selling secondhand ships simultaneously place orders for new ones and the prices of secondhand ships move closely with freight rates, although they may also to some extent be influenced by prices of scrap. For shipping space, as well as for the basic materials mentioned above, the possibility of supplies from America sets a limit to the increase in prices, in this case freight rates. At a certain level the United States Government may decide to put units of the American reserve fleet into operation. But the general tendency for western Europe to rely on America as a reserve is dangerous partly because drawing on these reserves means increased dollar outlays and partly because it links price developments in Europe to the usually much more flexible American price level. Reliance on North American supplies which, until a certain stage of the boom, had beneficial effects on the European price level may, if the boom continues, give a strong boost to European prices. This may be of particular importance in the present situation if economic activity in the United States continues to improve rapidly.

The Insufficiency of Capacity in Basic Industries

Less than a year ago the coal and steel industries in Continental Europe had hardly overcome their short-lived depression. But now it seems that the only alternative to a coal and steel shortage is a slowing-down of the upswing. The continuation of the upswing during the winter without acute shortages or major price increases was made possible only because activity happened to be low in the United States, so that reserves from that area could be drawn upon. It is difficult to avoid the conclusion that, with the fortunate exception of oil refining, capacity in basic industry in the western European area as a whole is too limited to permit the full utilization of its economic resources.

Just as the increase in freight rates caused by the shortage of shipping capacity, while having unfavour-

able effects on the European price level, had the advantage of inducing increased investment in ships, it might be argued that if prices of scrap and steel move up freely, producers of pig-iron and steel will receive an incentive to expand capacity (which would not, however, become available for some time). It is doubtful if the argument is valid. The possibility of earning large profits in a boom from soaring prices for steel may equally well tempt producers whose investment decisions are a matter of open or tacit agreement to keep capacity relatively short. Provided that the attempt to stabilize steel prices is applied to good as well as to bad times, producers may become less reluctant to let capacity expansion run sufficiently ahead of demand to allow for reasonable reserves. The success of the High Authority in preventing any major fluctuations in steel prices is thus calculated not only to keep down prices but also to promote the long-term expansion of the steel industry. No upward movement of prices can bring forward any further amount of steel at short notice or cause substitution with other products to any extent that would be of significance. In the short run, a steel shortage can be avoided only by measures which limit the increase in investment and consumption of products with a large steel content.

3. Labour Problems

The Employment Situation

The substantial increase in industrial output during the year 1954 was made possible largely by a concurrent increase in industrial productivity. Table 6 shows that in nearly all the countries listed, the increase in output per man-hour was considerably larger than in previous years. At the same time, however, there was a general lengthening of working hours. There was also a larger intake of new workers than in previous years. As a consequence, unemployment was in nearly all countries at lower levels than in recent years and in some countries the number of unemployed was smaller than at any time since the war.[1] The increases in industrial employment varied considerably from country to country. It was natural that countries like western

[1] See Table 13, page 22.

Table 6

CHANGES IN EMPLOYMENT, OUTPUT PER MAN-HOUR AND REAL EARNINGS IN INDUSTRY

Percentage changes at annual rates

A: Fourth quarter 1953 to fourth quarter 1954 B: Fourth quarter 1950 to fourth quarter 1954

		United Kingdom	Sweden	Denmark	Netherlands	Belgium	France	Western Germany	Austria	Italy
Output :	A	6.2	3.6	8.0	8.2	11.1	11.1	12.9	13.3	5.7
	B	3.3	2.7	2.0	2.9	3.6	5.2	10.0	7.3	7.6
Employment :	A	2.7	1.5	3.4[a]	4.6	−0.4	0.2	5.3[b]	6.0	1.7
	B	1.4	−0.7	−0.8[a]	1.8	−0.9	−0.1	4.8[b]	1.7	0.7
Hours worked per week: Number of hours: fourth quarter 1954		46.3	..	..	..	..	45.1	49.1	47.6	48.5*
	A	0.9	..	..	..	..	0.7	0.4	0.4[c]	1.3[c]
	B	0.3	..	..	..	..	—	0.9	0.3[c]	0.4[c]
Output per man-hour:	A	2.5	..	4.3	..	..	10.1	6.5	6.5	5.5
	B	1.7	..	2.8	..	..	5.4	4.8	5.2	7.3
Real hourly earnings:	A	2.9	4.2	..	6–8*	2.3[d]	5.3	2.0	3.8	1.8*
	B	1.2	5.0	..	1.5–2.0*	0.9[d]	5.7	4.7	2.0	2.3*

NOTE. — Industry includes mining, manufacturing and public utilities but not building. Output per man-hour has been calculated from published data on man-hours worked in Denmark, western Germany and Italy. For the remaining countries, published data on employment and weekly hours worked have been used. For France, the level of output per man-hour is overstated. See footnote [a] to Table 7.

a Index numbers of man-hours worked.
b September to September comparisons.
c Based upon monthly hours worked.
d Based upon real wage rates.

Germany and Austria, which, at the beginning of 1954, still had large reserves of unemployed, should show the highest rate of increase: it is more remarkable that in the United Kingdom and Sweden, where the labour market was strained already a year ago, industrial employment could still expand as much as, or more than, in countries with considerable unemployment such as Belgium and Italy. In the latter countries, industrial employment increased only 1 and 2 per cent, respectively, and in Italy unemployment actually increased owing to the smaller volume of public works. In France, industrial employment continues to stagnate and not even the upswing in production during the last year has brought about any increase in the total numbers employed.

Although there was a slight increase in employment in certain Italian industries—e.g., nearly 3 per cent in engineering during the year 1954—Italian industry in general continued, as in earlier years, to utilize the existing labour force more intensively instead of taking in more labour. There are several reasons for this. The heavy social charges which have to be paid by Italian employers, and which may amount to an addition of as much as 50 or 60 per cent of the basic wage, do not apply to payments for overtime, so that employers, by lengthening working hours, can avoid the increase in social charges which recruitment of fresh labour would involve. Overtime rates are relatively low and, from the point of view of the employers, the lengthening of working hours has the further advantage that in slack periods the amount of work can be reduced without the risk of labour trouble which may arise from dismissals. The result is that average working hours in industry in Italy seem to be among the highest in western Europe. To correct this situation, a draft law has been presented to Parliament designed to prohibit or tax overtime work unless the employer can prove that no suitable person could be employed instead. Moreover, the question of employers' contributions to social security payments is at present under study.

In western Germany, too, average working hours are long in spite of still considerable unemployment, while in the United Kingdom the average working week, though longer than at any time since the war, is three hours shorter, and in France four hours shorter, than in western Germany. Part of the overtime worked in European countries is, of course, a direct consequence of the shortage of skilled labour in particular branches. Thus it can be seen from Table 7 that working hours in engineering are generally longer than in textiles, and comparison with the figures in Table 6 shows that they have, on the whole, increased more during 1954 than in industry generally.

Table 7

CHANGES IN EMPLOYMENT, OUTPUT PER MAN-HOUR AND REAL EARNINGS IN METAL-USING AND TEXTILE INDUSTRIES IN MAJOR WESTERN EUROPEAN COUNTRIES

Percentage changes from fourth quarter 1953 to fourth quarter 1954

	United Kingdom		France[a]		Western Germany		Italy	
	Metal-using	Textiles	Metal-using	Textiles	Metal-using	Textiles	Metal-using[b]	Textiles
Output	10.2	1.5	19.7	1.4	22.8	1.5	−2.4	−1.6
Employment	4.4	−0.2	2.1	−2.2	10.7	0.7	3.0	−3.7
Hours worked per week	1.1	−0.2	1.3	0.7	2.0	−0.6	0.2[c]	−2.5[c]
Number of hours : fourth quarter 1954	47.1	44.8	46.5	42.5	50.1	47.2	49.5	47.0
Output per man-hour	4.3	1.8	15.7	2.9	9.6	2.7	−3.6	4.7
Real hourly earnings : A	3.0	2.7	5.0	5.4	1.0	0.2	0.2	1.9
B	1.2	1.0	5.9	5.0	5.0	3.7	1.2	1.9

NOTE. — Output per man-hour has been derived from published data on man-hours worked for western Germany and Italy; for the United Kingdom and France man-hours worked have been derived from employment and weekly hours worked.

A: Fourth quarter 1953 to fourth quarter 1954.

B: Fourth quarter 1950 to fourth quarter 1954.

[a] Output and out put per man-hourin metal-using industries are overstated. The output index is largely based upon deliveries of steel to metal-using industries, consequently supplies to and withdrawals from stocks of steel are also reflected in the index.

[b] The low level of output per man-hour appears to be chiefly due to the influence of shipbuilding, where output in the fourth quarter of 1954 was less than 50 per cent of that in the fourth quarter of 1953, although employment was apparently unaltered.

[c] Based upon monthly hours worked.

In a number of countries complaints are becoming more frequent that lack of skilled labour prevents a further increase of output in the engineering industries. Other branches with a fairly general shortage of skilled labour are the building industry and, as already mentioned, coal mines. In agriculture, moreover, hired labour fell short of demand in several countries because the reduction of the labour force in 1954 was greater than in preceding years. While the labour shortages in the engineering and building industries bear witness to insufficient efforts to train young workers in these expanding branches, the general shortage of workers in the coal mines and in agriculture reflects the natural difficulty, in conditions of more or less full employment, of recruiting young workers to branches where wages are low in relation to the heaviness of the work and where working conditions are relatively unattractive.

While certain kinds of labour are short in most countries, there are only a few which have an acute shortage of ordinary unskilled labour. In some countries the years of large-scale unemployment have accustomed employers to such an abundant labour supply that fears of a labour shortage are expressed as soon as the number of registered unemployed of the preferred age and sex dwindles in certain localities during the most favourable season. Experience in other countries shows, however, that large reserves can be mobilized for industry even where there is virtually no pool of registered unemployed to draw upon.

Regular statistics of the distribution of the whole labour force are available for only a few countries. These data are brought together in Table 8. In the United Kingdom, Norway and western Germany total employment increased proportionately more than the yearly net increase in the population of active age, and in the first two of these countries unemployment was too small to contribute much to this increase. It is apparent that not only have older workers and women, to an increasing extent, been retained or drawn into production but, in the United Kingdom and Norway, where there are comparatively few unemployed to draw on, the expanding demand for industrial labour has forced certain other branches to rationalize their production. This tendency was less marked in western Germany, which has greater unemployment, and in France, where employment remains constant. As shown by the table, the decline in the agricultural labour force in Norway was particularly marked, and although the absolute fall in numbers of hired farm labourers in the United Kingdom was the same as in western Germany, this represents a much larger proportionate fall in the total agricultural population of the United Kingdom. Moreover, in the United Kingdom the increase in employment both in building and distribution was fairly small, when account is taken of the high level of activity, whereas in western Germany the increase of about 9 per cent in each seems to indicate that there could hardly have been any significant productivity increases. In Norway the

Table 8

CHANGES IN EMPLOYMENT BY BRANCHES OF ECONOMIC ACTIVITY FROM END OF 1953 TO END OF 1954

	United Kingdom[a]		Norway		France[b]		Western Germany[c]	
	Thousands	Percentage	Thousands	Percentage	Thousands	Percentage	Thousands	Percentage
Agriculture, forestry and fishing	−21	−2.0	−5	−6.0	..	..	− 21	−2.1
Mining and quarrying	− 1	−0.1	—	−1.0	−10	−2.8	14[d]	1.3[d]
Manufacturing	258	2.9	9	3.0	29	0.8	361	5.7
Building and construction	19	1.3	1	0.8	35	3.8	156	9.4
Transport and communication	−19	−1.1	1	1.6	−15	−2.1	9	0.8
Distribution	77	2.8	5	4.5	5	0.5	148	8.7
Private services, professions, etc.	46	1.2	2	0.8	6	1.0	120	3.8
Other branches	− 8	−0.5	—	—	1[e]	0.7[e]		
Total civil employment	351	1.6	13	1.4	50[f]	0.7[f]	787	4.9
of which : Men	*159*	*1.1*	*10*	*1.6*	..	..	*463*	*4.2*
Women	*192*	*2.6*	*3*	*1.1*	..	..	*324*	*6.4*

a Including self-employed and family help.
b The figures cover only establishments employing at least 10 persons.
c Changes from September 1953 to September 1954.
d Including public utilities.
e Excluding public administration.
f Excluding agriculture and public administration.

lack of building workers induced Government and other public authorities to build more in the slack season with the result that total days worked in 1954 increased by 4 per cent over 1953, although the labour force in the building industry increased only 1 per cent.

Even in those countries which are closest to an overall shortage of labour, the United Kingdom and Sweden, there are still some unutilized reserves. Unemployment in Northern Ireland amounts to nearly 8 per cent, and in Scotland 3 per cent, whilst it is only one-half per cent in the Midlands, the centre of the engineering industry. In Sweden, there is still a surplus of female labour in some textile districts where the industry has been rationalized.

In other countries, of course, the reserves are much larger. In western Germany, while some experts expect the expansion of employment to slow down very much in 1955, others expect it to increase by a further 4 per cent, even though the net influx of young people into the labour market will decline considerably, and even though the geographical distribution of unemployment prevents its being immediately reduced to the low levels prevailing in some of the western European countries. The reserve of potential female labour is particularly large in western Germany and there is still a net inflow of young refugees.

Wage Movements in the Industrial Upswing

Naturally, the expansion of industrial production during 1954 strengthened the demand for higher wages. On the one hand, the prosperity of industry confirmed the opinion of trade unions that wage increases were overdue, and on the other hand the increased demand for labour improved its bargaining power both individually and in collective wage negotiations. Wage claims, as well as actual wage increases, are therefore becoming more frequent, not only in those branches where labour is becoming particularly scarce or where profits appear to be particularly high, but also in other branches, where labour follows the lead given by workers in the most prosperous industries.

Coal mining and agriculture have already been mentioned as branches which have particular difficulties in keeping their labour force in periods of high industrial employment, and it has been seen that wages in coal mines have risen in a number of countries. In agriculture the upward movement of wages is no less general, and its relation to food prices is causing considerable concern in many countries. In some cases the wage awards are of quite recent date and their full effect will not be seen until the summer and autumn of 1955. In the United Kingdom the wage increase of last January will be shown in an increase in the subsidy bill. In Sweden a 12 per cent increase in farm wages will result in higher farm prices in the harvest year 1955/56.

Within manufacturing industry wages in different branches show remarkably similar movements in spite of different degrees of labour shortage and varying increases in productivity. Table 7 gives some evidence of this. The comparison is limited to the engineering and textile industries in the four major industrial countries. If account is taken of the fact that the increase in overtime work has affected mainly the engineering industries, there does not seem to be any tendency for wage rates in those industries to increase faster than in the textile industries during 1954. A comparison made over the last four years gives the same result, except for western Germany, where textile wages were raised at the beginning of 1955 while no change in wages in engineering has so far taken place. In the United Kingdom, however, wage rates in the engineering industries rose substantially in March, and hence the index of real earnings, at least for the moment, jumped ahead of that for textiles.

The fact that wages in the textile industry have gone up during 1954 roughly as much as those in the engineering industries might be said to help explain the stability of industrial prices. It is true that in the same period the textile industry has been relatively depressed while the engineering industries have enjoyed great prosperity. But partly as a consequence of this, output per man-hour in engineering increased much more than in textiles, thus offsetting the rise in engineering wages, while the fall in demand for textiles prevented wage increases in that industry from being passed on to consumers.

Shortcomings of statistics make it hazardous to utilize them for inter-country comparisons or for comparisons of the percentage increases of earnings and output per man-hour. The only conclusion which it seems safe to draw from the figures given in Tables 6 and 7 refer to the extremes, that of western Germany on the one hand and of the United Kingdom on the other. There seems to be no doubt that increases in earnings in western Germany lagged so much behind increases in output per man-hour during 1954 that, given the stability of both industrial and non-industrial prices, the competitive position must have improved considerably compared with that of the United Kingdom, where output per man-hour increased much less, both absolutely and in relation to wages (partly because of a larger rise in the non-industrial elements in the cost-of-living index), and where the upward

revision of wages in 1955 was larger than in Germany. The position of the other countries is more difficult to assess, but it would seem that the competitive position of the Scandinavian countries and the Netherlands has deteriorated in relation to other countries on the Continent.

Some Aspects of the Labour Shortage

The wage pressure which has resulted from the improved employment situation is for the time being causing so much concern that there is a tendency to forget the advantages of labour market shortages. As was mentioned above, the virtual disappearance of unemployment in the large industrial centres of the United Kingdom made it possible for older people and married women to earn an income, and a push may have been given to rationalization both in building and in distribution. It seems probable that the higher rate of increase in output per man-hour in 1954 is partly attributable to better organization of work resulting from the difficulty of recruiting extra hands. Moreover, the shortage of labour favours the desirable structural adjustments of the economy, both the shift of labour from contracting to expanding sections of the economy and the geographical shift either of labour to industry or of industry to labour. It is reported, for instance, that a number of firms now located in England have decided to set up branches in Northern Ireland where unemployment, as mentioned above, continues to be high. In the United Kingdom as well as in Switzerland the labour shortage has speeded up the rate of immigration and contributed to a reduction of unemployment elsewhere.[1]

A general shortage of labour thus has advantages as well as disadvantages. Far more widespread is the shortage of skilled labour in certain expanding branches and this is one of the major restrictive factors in the European economy. Shortage of skilled mechanics and skilled building workers is so widespread that not even a liberal immigration policy would help substantially, because there is very little unemployment in skilled grades even in those European—or overseas—countries that have very large unemployment. The insufficient training of skilled labour in the expanding branches, and the insufficient capacity reserves in basic industries, are the chief bottlenecks in the European economy, which make it impossible to prolong an expansionist movement beyond a certain point without distortion of the price structure.

[1] The inflow of labour into Switzerland is mainly from Italy, while British industry has attracted labour from the West Indies.

4. The Demand for Western European Exports

At the end of 1954 and during the first months of 1955, the self-contained character of western European expansion was becoming more apparent. It was seen in the introductory section of this article (and in Chart 3 above) that, account being taken of seasonal factors, a considerable discrepancy developed during the winter between the movements of intra-European and of overseas exports; the former rose much more in value from October to February than the latter. At the same time there was a divergence between exports to the dollar area and to other overseas markets.

The Recovery of the North American Markets

Towards the end of 1954 there was an important change in the direction of western Europe's overseas exports as a result of the marked recovery of demand for European imports in the United States and Canada. Exports to these countries, which had been depressed during the first three quarters of 1954, rose in the fourth quarter to a level equal in value to, and probably higher in volume than, exports in the last quarter of 1953. This was in contrast with the movement of United States imports as a whole, which remained stable between the last two quarters of 1954, greater imports from western Europe being offset by smaller imports of wool, rubber and several metals. There appears to have been some drawing down of stocks of imported raw materials, which have absorbed the first impact of improved economic activity in the United States.

When account is taken of seasonal changes, there appear to have been considerable increases in imports from Europe of textiles, food and vehicles. Production and sales of textiles in the United States have not yet approached their previous peaks but inventories fell by 6 per cent between January 1954 and January 1955; and the rebound of textile imports probably reflected some re-stocking and perhaps also the faster response of a high-quality market to changing business conditions. On the other hand, European exports of steel and other metals remained at low levels, partly because of the high demand in western Europe and partly because the revival of American orders to the European steel industry had not yet resulted in increased deliveries. Another field where the rise in United States production failed to have a counterpart in imports is chemical products: while production of

chemicals in the United States rose by some 7 per cent during 1954 and passed its pre-recession peak, imports from Europe (as well as from other countries) continued to decline. In addition to these instances, where the continued stagnation of European exports to the United States indicates shortages in Europe or a time-lag in the external repercussions of United States demand, export results in the fourth quarter were unsatisfactory for watches and clocks, which felt the effects of duty increases. Failing to rise to their usual seasonal peak, these exports at $18 million were nearly one-third below their fourth quarter 1953 level.

The recent expansion of exports to the United States is encouraging because it indicates that, at least as far as manufactured products are concerned, the external demand of the United States economy has again proved capable of a relatively quick rebound after its brief 1953/54 recession. A high level of export earnings from the United States is also necessary to make it possible to pursue further the liberalization of dollar imports which has contributed to the avoidance of inflationary pressure during the European upswing.

The more liberal import policy in Europe has already significantly changed the structure of western Europe's dollar balance of payments. As is shown in Table 9, European [1] imports from the United States rose during the fourth quarter of 1954 to $1.1 billion, a level fully one-third above that of the corresponding period of 1953, and (albeit partly seasonally) some $370 million higher than in the third quarter of 1954. Apart from seasonally high shipments of wheat, cotton and tobacco,[2] imports of timber, machinery and miscellaneous manufactures rose conspicuously. The latter are precisely the commodity groups for which liberalization measures taken by various western European countries in the course of 1954 have been most important.

Although the increase in western Europe's imports from the United States was large enough to produce a marked deterioration of the current account balance with that country (from a surplus of $170 million in the third quarter to a deficit of $250 million in the fourth [3]), its repercussions on western European gold and dollar reserves were on the whole relatively slight. While the British reserves continued to decrease, other European countries accumulated $440 million in gold and dollar assets in the United States, an amount only slightly smaller than during the preceding three months. An interesting feature of this development is the fact that the most sizable additions went during the fourth quarter to the French reserves, which alone appear to have increased by more than $200 million. The main factor in this increase was the large cash expenditure of the United States under various aid programmes to France (such payments to France during 1954 exceeded $800 million), but it was assisted in the fourth quarter by French surpluses in the European Payments Union.

Import Restrictions in Non-dollar Markets

In contrast to exports to North America, European exports to other overseas areas showed very little expansion at the end of 1954; [4] such increases as took place from the third quarter were largely due to seasonal influences.[5]

Thus it appears that the stagnation of demand in western Europe's overseas markets (outside the dollar area) is continuing.[6] For some time the primary-producing non-dollar countries, taken as a group, have been spending above their current export receipts. In the course of 1954, and particularly during the latter half of the year, the foreign exchange reserves declined in many of these countries: in Latin America, taken as a whole, reserves fell by $150 million, and the decline in Australia was even larger. A drain on reserves in the most important western European markets does not, of course, provide a basis for a strong future expansion of exports.

In fact, recent months have brought to the fore a number of symptoms of impending difficulties for exports to overseas markets. First of all, Australia, the largest single non-dollar market for western Europe's exports, introduced a new import régime at the beginning of April. This is a hard obstacle to the further expansion of the United Kingdom's overseas exports, but the losses suffered by other European exporters will be small in relation to their total overseas sales. The primary cause of the Australian restrictions was a decline of export receipts. In

[1] Eastern Europe's transactions with the United States are also included in the table. These are, however, quite small and their exclusion would not affect the figures significantly.

[2] Imports of the latter two commodities have been somewhat affected by the United States agricultural surplus disposal scheme. In the second half of 1954, such exceptionally financed imports amounted to $44 million or 12 per cent of the total for cotton and tobacco.

[3] Year-end payments of interest on American loans also contributed to this change.

[4] It must be noted here that the British dock strike in October may have affected the fourth quarter totals of British exports to non-North American destinations, because the dock strike affected the port of London, the main outlet for exports to the overseas sterling area.

[5] There was, however, some expansion of exports to Latin American dollar countries which does not seem to have been seasonal.

[6] See SURVEY for 1954, Chapter 1.

Table 9

BALANCE OF PAYMENTS OF EUROPE AND ITS AFFILIATED OVERSEAS AREAS WITH THE UNITED STATES

Millions of current dollars

Item	Year and quarter	Europe			European affiliated overseas areas [a]	TOTAL of areas listed
		United Kingdom, Ireland, Iceland	Other European countries	Total Europe		
Exports to the United States	1953 IV	+131	+445	+576	+370	+946
	1954 III	+126	+369	+495	+321	+816
	1954 IV	+137	+446	+583	+340	+923
Imports from the United States [b]	1953 IV	−181	−645	−826	−300	−1 126
	1954 III	−185	−558	−743	−296	−1 039
	1954 IV	−270	−846	−1 116	−336	−1 452
Services (net), excluding United States military expenditure	1953 IV	− 65	+ 5	− 60	− 85	−145
	1954 III	+ 40	+ 32	+ 72	− 88	− 16
	1954 IV	−104	+ 1	−103	− 86	−189
United States military expenditure abroad	1953 IV	+ 53	+298	+351	+ 33	+384
	1954 III	+ 83	+263	+346	+ 44	+390
	1954 IV	+ 79	+307	+386	+ 47	+433
A. Balance on goods and services	1953 IV	− 62	+103	+ 41	+ 18	+ 59
	1954 III	+ 64	+106	+170	− 19	+151
	1954 IV	−158	− 92	−250	− 35	−285
B. Private donations and movements of private United States capital (total)	1953 IV	+ 38	+ 41	+ 79	+ 32	+111
	1954 III	+ 58	+ 39	+ 97	+ 27	+124
	1954 IV	+101	+113	+214	+ 36	+250
C. United States Government grants and credits (excluding military aid)	1953 IV	− 1	+123	+122	+ 71	+193
	1954 III	+ 25	+175	+200	+ 28	+228
	1954 IV	− 13	+273	+260	+ 28	+288
D. Changes in foreign holdings of gold and dollar assets	1953 IV	+174	−511	−337	+ 3	−334
	1954 III	+121	−490	−369	+ 52	−317
	1954 IV	+187	−442	−255	− 17	−272
E. Errors, omissions and interregional transfers of dollars	1953 IV	−149	+244	+ 95	−124	− 29
	1954 III	−268	+170	− 98	− 88	−186
	1954 IV	−117	+148	+ 31	− 12	+ 19

Sources : Rearranged from the *Survey of Current Business*, United States Department of Commerce, March 1955, and Supplement to July 1954 issue.

a Including the sterling area.

b Excluding goods and services provided by the United States to other countries under the military aid programme.

the second half of 1954 Australian export receipts from wool were as much as one-third below the corresponding period of a year earlier. Wool sales have been lower in quantity, and prices ruling in February were some 10 per cent below those of February 1954. At the same time imports were increasing and speculative purchases by traders anticipating import restrictions raised their level further in the first two months of 1955. As a result, the sterling reserves of the Commonwealth Bank fell from a peak of $1,200 million in the first quarter of 1954 to $900 million at the end of February 1955.

The new import restrictions fell especially hard on consumers' goods and " non-essentials "; raw materials and capital equipment were left in a privileged position. Quotas for most consumers' goods were cut up to one-third. For automobiles the cuts are of the order of 10 per cent of the 1954 level, which would mean a reduction of more than 15,000 cars from the United Kingdom, the principal supplier.

Since current order books are far in excess of the 1954 level, the reductions will be felt considerably more sharply by exporters than the percentages indicate. Table 10, which shows the development of exports from four major European supplier countries to Australia since the 1951/52 crisis, gives a rough impression of the magnitudes involved. The reduction in textile imports will be about one-third from the recent annual rate of some $190 million; this cut falls almost entirely on the United Kingdom, thus aggravating further the difficulties of the Lancashire industry. In automobile exports the amount of reduction—again affecting mainly the United Kingdom —will be of the order of $15 million per year. However, in neither of these two principal commodity groups (which together account for over one-third of the exports shown in the table) will the export volume be reduced nearly as much as during the crisis in the second half of 1952.

In a number of other countries in the Far East and in Latin America the picture is hardly more encouraging than in Australia. Brazilian import trade came practically to a standstill early in 1955 because of the extremely small allocations of foreign currency in the auction market; furthermore, the complicated exchange premium system was modified in March and the import premiums tied to the free dollar rate, which has been continuously rising. Chile tightened its import controls in February. Colombia is reducing the volume of its imports in 1955 through adjustments in its multiple exchange rate structure; in addition, the import of a large number of luxuries has been completely banned. In Thailand, the list of prohibited imports has recently been widened and the preferential

Table 10

EXPORTS OF FOUR WESTERN EUROPEAN COUNTRIES [a] TO AUSTRALIA

Millions of dollars at July–December 1954 prices

Commodity group	Second half 1951	Second half 1952	July 1953–June 1954 [b]	Second half 1954	Jan.–Feb. 1955 [c]
Textiles and clothing, incl. yarns	148.1	26.1	90.9	86.0	87.3
of which:					
Cotton and linen manufactures	67.7	12.4	33.1	30.8	30.5
Motor vehicles	97.5	20.7	47.7	57.0	69.0
Other vehicles	11.3	8.0	10.6	11.2	9.7
Other metal manufactures	73.1	38.2	48.3	69.2	79.1
Electrical machinery and apparatus	32.9	26.6	26.4	25.5	27.3
Other machinery and apparatus	91.7	50.7	74.5	73.8	73.9
Chemicals	20.1	5.9	22.0	33.5	36.8
Paper and manufactures	20.4	4.2	13.1	14.0	14.6
All other exports	118.4	50.5	70.3	79.5	73.4
TOTAL EXPORTS					
at constant prices	613.5	230.9	403.8	449.7	471.1
at current prices	639.6	240.5	407.3	449.7	466.4

[a] France, Italy, western Germany and the United Kingdom.
[b] Semi-annual rate.
[c] For western Germany and Italy, January 1955, and for the United Kingdom and France, January–February 1955, at semi-annual rate.

rates enjoyed by all imports payable in sterling have been suppressed in view of the rapid decline in the country's sterling balances. In Burma, all import licences in force were reduced by 50 per cent in March (with the exception of certain firm commitments), and the entire import policy will be reconsidered in view of the rapid decrease in the country's foreign exchange reserves (which fell from $211 million at the end of 1953 to $124 million at the end of 1954).

Only a few countries have modified their commercial policy in the opposite direction. The most important example is the Union of South Africa, whose exports (particularly metals) and foreign exchange reserves increased sharply in the latter half of 1954. To prevent inflationary tendencies arising from the export surplus, the South African Government recently decided to liberalize its import policy substantially. The free list will be extended, quotas for textiles, certain electrical equipment and meat have been increased, and quotas of consumer goods will be set at 53 instead of 45 per cent of the 1948 imports. The increase of 40 per cent in quotas for motor vehicle parts is particularly important for British automobile exports, in view of the Australian restrictions. If the whole of this increase were to come to the benefit of the United Kingdom, it would offset most of the effect of Australian import cuts.

The Critical Situation in Textile Markets

The tendency of textile exports to develop less favourably than exports of other commodities became further accentuated in the latter half of 1954. Intra-European trade in textiles continued at a high level, but overseas exports declined. As a result of larger sales in western Europe, textile exports of western Germany, the Netherlands and Belgium in the winter of 1954/55 exceeded the level of the previous winter, although the increase was much smaller than that of other exports (see Table 11). Rising French exports to its African territories produced the same result, although exports to Indo-China were slightly lower than a year before. Among the continental European exporters, Italy appeared to be in the worst position, the volume of its textile exports being more than one-quarter below the level of the winter of 1953/54. Export difficulties—affecting particularly cotton yarns and cloth—have already badly depressed the Italian textile industry and increased the threat of mass unemployment in the industry.[1]

[1] The freezing of Italian textile exporters' claims on Turkey (which has led to a virtual cessation of exports to that country) is also reported to have caused financial difficulties in the industry.

Table 11

VOLUME OF TEXTILE EXPORTS AND TOTAL EXPORTS FROM SELECTED WESTERN EUROPEAN COUNTRIES

Index numbers—corresponding period of previous year = 100

Country	Textile Exports		Total Exports	
	1954 Fourth quarter	1955 Jan.–Feb.	1954 Fourth quarter	1955 Jan.–Feb.
United Kingdom	86	99[a]	99	115
France	106	..	117	121
Western Germany	116	112	119	124
Belgium-Luxembourg	104[b]	106[b c]	114	114[c]
Italy	70[b]	74[b]	118	..
Netherlands	106	..	114	..
Switzerland	99	107	106	112

[a] Estimated.
[b] Figures are indices of value. Price changes during the year have been so small that their effect is not significant.
[c] January 1955 on the base of January 1954.

British textile exports continued to fall throughout 1954, but appear to have picked up somewhat in the first two months of 1955. This movement, however, may be partly the backwash of the October dock strike, and there is little indication that the volume of orders has risen enough to permit a sustained increase. Most of the decline during 1954 was concentrated on cotton and synthetic textiles. As can be seen from Table 12, which shows the cotton cloth exports of major producer countries in Europe and overseas by areas of destination, British exports, which had stagnated since 1952, declined by 15 per cent from the first to the second half of 1954. The decline was felt in nearly all markets. Quantitatively greatest were, of course, the losses suffered in the overseas sterling area, which receives over three-quarters of total British cotton cloth exports. It is apparent that much of the declining British sales reflect a shift to Indian and Japanese supplies. The exports of these two countries to the overseas sterling area were rising rapidly in the first half of 1954. So far as Japan is concerned, the trend continued in the second half. Indian export statistics for that period are not yet available.

The competitiveness of Indian exports has been increased by the abolition of export duties and by the maintenance of low prices for raw cotton. The entry of Japanese textiles into the sterling area was facilitated by the revision of the sterling area's commercial policy early in 1954, partly with the object of overcoming Japan's acute sterling shortage. More recently

Table 12

EXPORTS OF COTTON CLOTH FROM SELECTED COUNTRIES

Thousands of tons at semi-annual rates

	1951	1952	1953	1954	
				1st half	2nd half
Total exports	265	226	228	269	..
of which from: United Kingdom	49	40	41	41	35
France [a]	28	26	25	25	29
Netherlands	9	12	12	12	12
Western Germany	12	14	12	11	12
United States	70	64	57	59	57
Japan	55	39	47	59	(66)[b]
India	42	31	34	62	..
To Europe	36	27	22	29	..
of which from: United Kingdom	6	4	5	5	4
Western Germany	9	9	7	7	8
Japan	8	7	4	3	..
India	5	—	1	8	..
United Kingdom's imports from India and Japan	*14*	*5*	*3*	*8*	*12*
To overseas sterling area countries	104	83	75	89	..
of which from: United Kingdom	38	31	30	31	26
Other Europe [c]	4	5	6	6	6
United States	10	4	2	4	4
Japan	28	20	14	20	..
India	24	23	23	28	..
To other overseas countries	125	116	131	151	..
of which from: United Kingdom	5	5	6	5	5
Other Europe [c d]	7	8	9	7	10
United States	56	58	54	54	52
Japan	19	12	29	36	..
India	13	8	10	26	..

[a] Of which only about 1,000 tons per half-year to countries outside the franc area.

[b] Figure based on value.

[c] Western Germany, France and the Netherlands only.

[d] Excluding French exports to the franc area.

the Japanese Government, alarmed by complaints of too low export prices at the moment when its entry into GATT is still being negotiated, introduced an export quota system in order to force up export prices and to lower domestic prices. It appears likely that the boom in Japanese textile sales to the sterling area towards the end of 1954 reflected to some extent sales made in anticipation of the impending restrictions. On the other hand, the recent decision of Malaya to admit a larger amount of Japanese textiles cannot fail to have further repercussions on British exports. Certain other changes in the import policies of the sterling area countries are affecting the United Kingdom's textile exports without necessarily favouring exports from other countries. Thus—in addition to its reduction of quotas—Australia has increased import duties on some synthetic textile products.

At the same time as British exports of textiles were declining, the domestic difficulties of the industry were increased by larger imports, particularly of grey cotton cloth from India and Japan.[1] Total grey cloth imports rose from 8,600 tons in 1953 to some 44,500 tons (at an annual rate) in the first two months of 1955. This was, however, only slightly higher than the peak level of 1951. In the recent budget, the Government has given some help to the industry by certain reductions in purchase tax on cotton cloth,[2] but its disinclination to increase protection is enhanced by the shortage of labour in other sectors of the economy.

[1] Normally most of this cloth is re-exported after processing.

[2] This does not, however, improve the situation for the producers most directly hit by the foreign competition, because there was no purchase tax on the cheap quality cloth.

5. Government Policy to Control Prices and Internal Demand

It has been seen that the supply position of labour and of basic materials differs between countries, as does the relationship between changes in industrial productivity and in wages. In particular, the United Kingdom and the Scandinavian countries seem to be in a more difficult position than the other western European countries, owing to a fuller utilization of available manpower. The difficulties are aggravated by the fact that these particular countries also have, as is shown by Table 13, much smaller currency reserves in relation to imports [1] than other western European countries, apart from some countries in southern Europe. Denmark and Norway, in particular, have very small currency reserves.[2]

[1] British, French and Belgian currency reserves have to cover the needs of their entire currency areas. In order to allow for this fact, they have been related to the imports, payable in foreign currencies, into the whole of their currency areas.

[2] Gross foreign exchange reserves have been used in Table 13, because some of the foreign liabilities such as EPU and other clearing debts are not short-term liabilities in the strictest sense of the word. Thus, for instance, Denmark and Turkey have EPU and other clearing debts of roughly the same magnitude as their holdings of gold and other currencies, and therefore their actual liquidity position is less serious than the figures for the net reserve position would suggest.

Table 13

UNEMPLOYMENT, CURRENCY RESERVES AND INTEREST RATES

Country	Unemployment				Gross [a] Foreign Exchange Reserves			Official Discount Rate	
	Thousands	As percentage of wage and salary earners [b]		March 1954=100	Millions of dollars	As percentage of 1954 imports [c]		In per cent per annum	
	March 1955	Lowest month 1954	March 1955		End March 1955		Change since end Sept. 1954	End April 1955	Change since end Sept. 1954
United Kingdom	270	1	1	71	2 667 [d]	27 [e]	− 2	4.50	+1.50
Sweden	40 [f]	1	2 [f]	88 [f]	(469)	(26)	(− 2)	3.75	+1.00
Norway	22 [f]	—	2 [f]	106 [f]	167	16(−)	− 5	3.50	+1.00
Denmark	117 [f]	2	8 [f]	94 [f]	124	11(−4)	− 2	5.50	—
Finland	26	—	2	52	244	37(28)	+ 4	5.00 [h]	[h]
Netherlands	51	1	1	73	1 420	51	+ 2	2.50	—
Switzerland	3	1	2	82	1 788	138	− 2	1.50	—
Western Germany	1406	5	8	99	2 761	59	+ 5	3.00	—
Austria	194 [i]	4 [i]	9 [i]	80 [i]	358	55	− 6	3.50	—
France	..	..	..	91 [i]	1 379 [j]	38 [e]	+14	3.00	−0.25
Belgium	157	5	7	76	1 103	43 [e]	+ 2	2.75	—
Italy	2157 [g]	12–14	14–16 [g]	99 [g]	(874)	(36)	(− 1)	4.00	—
Greece	170	..	12–15	..	224	68	+ 5	9.00	−1.00
Portugal	..	..	..	..	647	186	+ 1	2.50	—
Yugoslavia	..	..	..	..	43	13	..	..	..
Turkey	..	..	..	..	203	45(−1)	− 2	3.00	—

Note. — Gross foreign exchange reserves refer, in principle, to the holdings of gold, foreign exchange and clearing assets of the banking system, the net reserves to the same *less* the short-term foreign exchange and clearing liabilities.

[a] Figures in brackets refer to net reserves; only given if gross figures are not available or if net figures are significantly different from gross figures.

[b] In many cases the figures for wage and salary earners are estimated.

[c] Revalued at latest available prices.

[d] United Kingdom's holdings (for the entire sterling area) of gold and United States and Canadian dollars.

[e] Foreign exchange resources have been compared with the imports of the entire currency area from countries outside the area.

[f] February.

[g] January.

[h] Lowest rate applied. The margin of Central Bank interest rates was widened in December 1954 from 5¾–6¾ per cent to 5–7½ per cent.

[i] Based on applicants for work.

[j] Gross holdings include gold and foreign exchange holdings of the Bank of France and its advances to the Exchange Stabilization Fund. The actual foreign exchange assets of France are not published.

The Netherlands and Switzerland utilize their labour resources as fully as the United Kingdom and the Scandinavian countries but, owing to their very favourable reserve positions, they have a wider choice of policy measures at their disposal than the countries of northern and southern Europe, with more strained currency reserves. Western Germany and Austria, where notwithstanding considerable unemployment concern about the future of prices has been felt, have the advantage of a high degree of external liquidity. It is, therefore, in the countries of northern Europe and the United Kingdom that more comprehensive policy measures have been taken recently either by steps designed to curb investment or consumption or by direct cutting of imports; whereas in other industrial countries of western Europe the tendency has been towards increasing supply through more lavish imports or towards preventing an undue swelling of bank credits. Finally, some southern European countries have taken measures to counteract the difficulties arising from the poor 1954 harvest.

Economic Policy in the Scandinavian Countries and the United Kingdom

Both Denmark and Norway are faced with serious balance-of-payments problems. In the case of Denmark, the decline in the net foreign exchange earnings of agriculture, following the unfavourable 1954 harvest, is expected to be further aggravated because of the reduction of pig production, which will diminish bacon exports by 30 per cent in the autumn of 1955 compared with the autumn of 1954. Curious as it may seem, the shipping boom has contributed to the Norwegian balance-of-payments difficulties, because it led to large purchases of ships and to orders for new ones at a time when some of the deliveries ordered under the influence of the previous shipping boom in 1951 have been completed. The balance of payments is strained both by payments for ships actually delivered and by advance payments for later deliveries.

Apart from balance-of-payments difficulties, there is in both countries widespread fear of the setting in motion of a wage-price spiral. In Sweden and Finland, where the forestry boom has increased export earnings, currency reserves are at more comfortable levels: although the net reserves of the two countries are of about the same size in relation to imports, they are felt to be more satisfactory in Finland, which maintains import controls, while some concern is expressed about their sufficiency in Sweden, where import trade is to a great extent liberalized. Actually, however, there is a greater danger of a wage inflation in these countries than in Denmark and Norway, precisely because of the boom in forest products.

The differences in the balance-of-payments situation among the Scandinavian countries are reflected in their import policies. While Norway has reduced some import quotas, the main method of reducing imports, both in Norway and in Denmark, is by credit and fiscal policy. Finland and Sweden, on the other hand, have liberalized their import policies: Sweden somewhat on dollar imports and Finland substantially through larger allocations of licences in western currencies.

The Danish measures to curb internal demand are mainly aimed at reducing consumption, while the main object in Sweden and Norway is to reduce investment. This difference in approach is due to the fact that labour resources are somewhat less fully utilized in Denmark than in Norway or Sweden, and that the annual increase in the Danish labour force will rise considerably in the coming years, as the effects of the higher wartime birth rate come to be felt on the labour market. It was therefore decided not to take new measures to curtail investment in addition to those of last summer, when interest rates were raised and measures taken to reduce building activity. The measures taken in March consist mainly of the taxation of durable consumer goods and textiles. In order to prevent these tax increases from causing a rise in the cost-of-living index, consumers were given immediate compensation for the tax increases by the handing out of non-transferable government bonds, payable in 10 to 15 years, amounting to the same sum as the taxes were expected to yield. The deferred income payment represented by the bonds is considered as a kind of negative direct tax[1] and its amount is so calculated as to offset, for the index family, the effects of the new indirect taxes on the cost of living. The reason for choosing this roundabout method was that the farmers, who, as exporters, are unable to let prices go up with increasing wages, demanded strongly that wage increases should be avoided, whereas the trade unions insisted equally strongly on preserving the sliding-scale arrangement laid down in the collective agreements.

In Sweden and Norway, where there is less need than in Denmark for a widening of the capital structure, most of the measures taken recently are, as mentioned above, intended to curtail investment.[2] In both Norway and Sweden quotas or taxes on building and on machinery and equipment have been

[1] Direct taxes are among the items of expenditure normally entering into the Danish cost-of-living index.

[2] The exception is passenger cars, for which taxation has been increased in all four Scandinavian countries.

imposed recently. Moreover, in Norway it is proposed to reduce the foreign exchange expenditure of the shipping industry by a 10 per cent tax on purchases and building of ships, and fiscal facilities for allocation to tax-free investment funds have been increased. Together with other restrictions on credits, Norway has raised the Central Bank discount rate which had remained at 2½ per cent for the past nine years—a step followed in April by Sweden. Furthermore, some measures have been suggested to encourage savings, and in order to diminish the liquidity of the economy some government loans have been issued or announced at attractive interest rates.

Finnish economic policy has been rather different from that followed in the other Scandinavian countries. An attempt made in the autumn to prevent pressure on money wages by reducing the prices of consumer goods, mainly milk, meat and textiles, was successful in so far as it put an end to the marketing difficulties of agriculture and the textile industry, but unsuccessful in so far as a 20 per cent wage increase nevertheless took place in the prosperous forestry sector. Since, moreover, the financing of the price reductions by subsidies and reductions in turnover taxes will cause a large budget deficit, the prospects for preserving the stability of the price level seem somewhat dubious. The institution of compulsory reserve requirements for the banking system and tax relief for deposits of export receipts may somewhat soften these inflationary impulses. But it seems unlikely that these measures, as well as the recent increases in corporation and income taxes, will prove sufficient.

The measures so far taken in the United Kingdom are less comprehensive than in the Scandinavian countries. The restrictions on hire-purchase introduced in March may somewhat reduce consumption and make more commodities available for export, but the bank rate increases in February and March were mainly intended to prevent stocking for speculative purposes and to draw short-term funds to London, thus affording temporary support to the balance of payments,[1] and the increases cannot be expected to exert any very marked influence on fixed investment. There are no signs that stocks either of imported or of home-produced goods were excessive in the United Kingdom. As regards investment in fixed capital and the pressure of demand on investment materials, it would seem that the implementation of declared intentions on the part of public and private enterprises to undertake heavy investment, especially in transport facilities, will more than counterbalance the effects of the raising of interest rates. No restrictive effects on either consumption or investment can be expected from the new budget, which contains some minor tax reductions and is intended to provide a considerable reduction in the government surplus on current account.

The Difficulties of Southern European Countries

The main difficulties with which some of the southern European countries have to cope are the aftermath of last year's unfavourable harvest. The balance-of-payments situation of Turkey continues to be critical, and demand for consumer goods has weakened as a result of the reduced purchasing power of farmers. Recently some parts of the large clearing debt to other European countries have been consolidated and a loan of $53 million has been granted by western Germany and one of $25 million by Italy. The arrangements imply, however, that the clearing debt will have to be reduced, which will add further inflationary pressure to that already provided by the budget deficit, and by the system of subsidizing exports. Until now, the Government has refrained from taking measures which would reduce internal activity and there is hope that the situation will be relieved by the coming harvest, for which the prospects seem good (not only in Turkey but also in other southern European countries) because of the rainy weather this spring.

In Greece also, industry is suffering from the decline in peasant income following the bad harvest of 1954, and the fall in production at the beginning of 1955 was larger than normal for the season. At the same time imports which had been liberalized after the devaluation of 1953 were running at very high levels, in particular those of luxury types of goods. Although the overall payments situation in Greece is much better than that of Turkey a qualitative restric-

[1] On the other hand, the British Government's declared intention to support transferable sterling rates in free markets abroad near the official parity appears to be a doubtful method of strengthening the sterling area's dollar balance. Apart from its psychological effect of bolstering general confidence in sterling, it will help the dollar earnings of certain exporter countries in the overseas sterling area by eliminating, at a considerable dollar cost to the British Exchange Equalization Account, various forms of "shunting operations". At the same time, it nevertheless encourages the supply of transferable sterling in foreign markets by providing an advantageous form of quasi-convertibility, whereas until recently the discount on sterling rates served rather to discourage this supply. The net dollar balance resulting from these operations may well be disadvantageous (unless the increase in confidence attracts fresh dollar area capital to London and makes present holders more disposed to keep their sterling). The support policy seems to be directed against the symptoms rather than against the disease itself.

tion of credits for imports was introduced in February, in order to secure a more favourable composition of imports and improve home demand for the products of Greek industry.

In Yugoslavia, in spite of extensive American aid, mainly used for grain purchases, the bad harvest has also caused balance-of-payments difficulties. In this country, however, the purchasing power of the farmers was kept up by granting them large credits for purchases of materials and consumer goods, and by subsidies both on purchased materials and on exports of agricultural products. The difficulties with which industry has to cope are therefore not those of marketing its products, but shortages of imported raw materials which prevent the full utilization of capacity for production of consumer goods. Consequently, the upward pressure on retail prices is stronger than in previous years. As in Turkey, the balance-of-payments situation of Yugoslavia is made still more difficult by the necessity of paying back old debts. It was reported by the Vice-President of the Federal Executive Council that payments on foreign debts at present swallow up 25 per cent of export earnings, mainly because nearly two-thirds of the debt consist of loans of a short-term or middle-term character.

Prospects and Policies in other Western European Countries

It has been seen that broadly similar problems of economic policy have recently come to the fore in the Scandinavian countries and the United Kingdom. At another extreme, the countries of southern Europe are faced with peculiar difficulties, arising in the last analysis from their low degree of industrialization. While in the remaining countries of western Europe the present situation and immediate prospects vary from one country to another, they have one thing in common—the economic upswing has not, so far, strained the economies to a point where acute or critical problems of economic policy arise.

In western Germany, the Netherlands, Austria and Switzerland, greatly increasing imports during the winter of 1954/55 kept internal prices down at the same time as they contributed very considerably to the large increase in intra-European trade, as mentioned earlier. In the case of Switzerland it was particularly the growing intake of foreign labour which permitted a continued expansion of the economy with almost stable prices. In addition to fairly liberal import policies western Germany, Austria and the Netherlands have taken or have prepared to take steps to reduce the liquidity of the banking system, and the Netherlands has frozen gross trade margins. In all three countries, on the other hand, taxation policy tends to counteract the other measures taken. Substantial tax concessions have been made or are being prepared in western Germany and Austria as from January, and in the Netherlands, mainly from July 1955. In western Germany and Austria, where the tax reductions are mainly to the benefit of higher income groups, it is hoped that a fair proportion will be saved.

In western Germany a further important step to encourage imports was taken on 1 April when tariffs were lowered for some 700 items and further reductions are proposed in case prices should increase. The attitude amongst business-men is, however, far from being one of bullishness as regards prices. A " business test " enquiry made in March [1] showed that in consumer goods industries, in contrast to earlier months, the expectations are of declining prices. Amongst retailers also expectations of declining prices are gaining ground. While the latest investigation (made in January) of business conditions in western German industry, the results of which are summarized in Table 14, still showed a very favourable picture for investment goods, such information as is available for March indicates that the seasonal increase in production of machinery and vehicles may have been less than normal. Contrary to expectations, sales of vehicles did not surpass last year's level.

As has been mentioned earlier, the upswing in 1954 raised industrial employment in Italy and Belgium very little and failed to raise it at all in France. Since utilization of physical capacity in nearly all branches was—and still is—relatively low in these countries, the upswing has not threatened the stability of the price level. The role of these countries in the European upswing has hitherto been mainly passive. Their function has been to provide additional supplies—coal, steel, engineering products and food—as demand in some other countries tended to outrun production. As a result partly of this and partly of payments from the United States for offshore purchase and other aid programmes, these countries are now all in reasonably comfortable balance-of-payments positions, although declining textile exports render the position of Italy somewhat vulnerable.

France responded to its favourable payments position by paying back various foreign credits to other members of the European Payments Union and to the United States and, in April, by raising to 75 per cent its " percentage of liberalization " for imports from OEEC countries. The improvement in the French

[1] See the IFO *Schnelldienst*, Institut für Wirtschaftsforschung, Munich, 14 April 1955.

Table 14

CERTAIN ASPECTS OF BUSINESS CONDITIONS IN WESTERN GERMAN INDUSTRY, JANUARY 1955

Percentages of answers to business-test questionnaires [a]

	Relatively large	Sufficient	Too small
Order stocks			
Investment goods industries	34	58	8
Consumer goods industries	14	62	24
Stocks of raw materials			
Investment goods industries	1	92	7
Consumer goods industries	8	88	4
Stocks of finished goods			
Investment goods industries	6	70	24
Consumer goods industries	26	65	9
	Good	Satisfactory	Bad
Turnover			
Investment goods industries	47	50	3
Consumer goods industries	24	68	8
Expected general business conditions for first half 1955			
Investment goods industries	41	53	6
Consumer goods industries	23	64	13
	Increase	No change	Decline
Expected development of exports for first half 1955	38	57	5

Source : IFO Schnelldienst, Institut für Wirtschaftsforschung, Munich, 17 February and 21 April 1955.

[a] The answers of individual firms have been weighted by their employment.

payments position partly reflects the fact that economic activity has not expanded very vigorously in France. In particular, it does not seem that French industry is taking part in the European investment boom to any significant degree. In November 1954, when the expectations of French industry for the coming half-year were very optimistic (as can be seen from Table 15), only half of the French engineering industries planned to raise their investments in 1955 above the 1954 level and a fairly large minority planned to reduce investment. In the textile industry two-thirds of the firms planned to reduce investment, although anticipations of the future development of production were fairly optimistic.[1]

* * *

In the first months of the year, fears were current in many quarters that the upswing was passing into a distinctly inflationary phase. The preceding discussion suggests as a general conclusion that these fears were premature.

It is true that the Scandinavian countries experienced rather heavy pressure, stemming both from wage increases and from high investment demand. But in those countries emphatic measures were also taken in order to keep total demand within bounds. By contrast, inflationary symptoms have scarcely been visible in most countries on the Continent, and in spite of fairly frequent upward adjustments of wages the stability of industrial prices seems to become more, rather than less, pronounced.

The situation is somewhat less reassuring in the case of the United Kingdom. The increase in import prices is not the most disturbing symptom. The price index of British imports actually declined in March for the first time since January 1954 and the most recent movement of international prices seems to be further downwards. A more serious consideration is that the very high level of employment has resulted in a considerable pressure on wages, and it may prove increasingly difficult to maintain stable selling prices, the

[1] A comparison of Tables 14 and 15 seems even to indicate that in France anticipations in consumer goods as well as in investment goods industries were more optimistic than in western Germany.

Table 15

INVESTMENT PLANS AND EXPECTED DEVELOPMENT OF PRODUCTION IN FRENCH INDUSTRY, NOVEMBER 1954

Percentages of answers to business-test questionnaires [a]

	Investment plans for 1955 compared with actual investment 1954			Expected volume of production for first half 1955 compared with actual production first half 1954		
	Increase	No change	Decline	Increase	No change	Decline
Total industry	45	34	21	59	33	8
of which :						
Engineering	49	34	17	63	28	9
Chemicals	63	20	17	72	27	1
Food	32	35	33	50	36	14
Textiles	10	25	65	45	43	12

Source : Etudes et Conjoncture, I.N.S.E.E., No. 3, 1955, pages 195 and 214.

[a] The answers of individual firms have been weighted according to their turnover.

more so since many firms have probably passed the optimum level of utilization of capacity, and increasing expenditure on overtime also adds to industrial costs. Even a moderate increase in British export prices, relatively to the export prices of other western European countries, may entail a further deterioration in the British balance of payments. The recent measures taken to reduce imports into some of the traditional British markets underlines the need for the United Kingdom to strengthen its export position in other and more competitive markets. Against this background, the restrictive measures so far taken on the domestic market appear to be rather modest.

While the course of British exports in the near future is thus closely dependent on the development of costs and internal demand in the United Kingdom itself, it is, of course, no less vitally dependent on the general level of trade in western Europe. It has been seen in the preceding discussion that in the winter of 1954/55 by far the greater share of the increased demand for western European exports originated in other European countries rather than in overseas markets. It would seem, however, that imports into a large number of European countries will expand less rapidly or even decline in the remaining part of 1955. Norway and Denmark have taken measures designed to reduce their imports during the current year, and the need to pay off debts will keep imports into Turkey and Yugoslavia on fairly low levels. These are all countries in very difficult balance-of-payments situations which have no other way out than to keep imports down. Imports are, however, also going to be reduced in some of the countries for which balance-of-payments problems are less acute or non-existent. In some cases there is no attempt to reduce total imports, but measures are taken to diminish imports of important commodity groups of European origin, such as passenger cars in the case of Sweden and a wider range of commodities in the case of Greece. Moreover, the Netherlands, although in a very favourable foreign exchange position, counts on reducing its imports somewhat below the present level; a large share of previous imports has gone to build up stocks, and the Netherlands does not plan to liberalize trade further but prefers to strengthen its reserves and its capital position.

In a number of other countries it seems that imports from European sources will remain at about the same level as hitherto. This seems likely to be the case for the United Kingdom as well as for Italy. Even Austria seems to feel a certain discomfort in continuing to draw on its reserves, although they have declined by only 10 per cent over the last six months and cover more than half a year's imports.

Hopes for a continued expansion of trade between western European countries therefore seem to hinge mainly on the western German tariff reductions and the French return to a higher degree of liberalization of imports from OEEC countries.[1] These two countries

[1] Liberalization of imports from the dollar area may, on the other hand, have unfavourable effects on European exports in cases where it results in substitution of American for European goods or for goods from other overseas countries, which as a result may have to cut back on their own import programmes. The greater the liberalization of dollar imports, the larger is the share of increased demand of the European countries which is likely to be satisfied in the United States, and it is very far from certain that increased European imports from the United States will come back in the form of higher American imports from Europe or from any other area.

however, are not amongst those in which the pressure on domestic resources is acute and the French market still remains closed for most of the industrial manufactures for which export prospects elsewhere show some signs of a possible weakening. Many of the countries whose imports seem to be levelling off or even declining are among the best customers of western German industry, and failure to find other outlets for its exports may discourage western Germany from taking further steps to raise imports, even though currency reserves are plentiful, for fear of adverse effects on domestic production. In order to avoid a disappointment of the generally optimistic expectations for exports, which are contributing to the sustained expansion of production and incomes in western Europe, it is therefore vital that commercial policies should, wherever possible, be oriented towards raising imports, or towards the granting of credits to some of the countries both in and outside Europe which, for reasons of external liquidity, are attempting to reduce their imports. Otherwise there is the danger that a continued accumulation of currency reserves in some countries, accompanied by further expansion of economic activity in others, will stop the expansion of intra-European trade and thereby weaken, or even interrupt, the economic upswing in western Europe.

The importance, at the present juncture, of maintaining the upward trend in intra-European trade (including trade between east and west Europe) is all the more crucial since the prospects of relief in the form of increased exports to overseas countries are uncertain. It is true that a continuation of the American industrial upswing will soon be reflected in American imports of raw materials, mainly from the western hemisphere, but with secondary effects on exports to the raw-material-producing countries from the United Kingdom as well as from other western European countries. Experience has shown, however, that such repercussions on European trade usually follow with a relatively long time lag, and that, in particular, countries which rely on quantitative import restrictions are often slow in revising their import policies when economic conditions change.

6. Developments in the Soviet Union and Eastern Europe

Recent official statements in the Soviet Union and in the countries of eastern Europe have marked a further shift in the emphasis of economic policy.

In his speech of 8 August 1953, the then Prime Minister of the U.S.S.R., Mr. Malenkov, while not failing to underline the basic role of heavy industry, had laid a new stress on the importance of achieving a sharp increase in the production of consumer goods.[1] The succeeding months saw, along with the continued growth of heavy industry, a series of measures designed to increase inputs into agriculture and light industry and to expand consumer purchasing power.

Mr. Khrushchev, however, in his report to the Party Central Committee on 25 January 1955, said that " a struggle must be waged against those who believe that now one can be satisfied with the level achieved in the development of heavy industry and can now concentrate one's main attention on the tasks connected with the development of the light and food industries ".[2] A later commentary on the meeting attached particular importance to this reaffirmation of the role of heavy industry : " In the decisions of the January Plenary Meeting of the Party Central Committee it was emphasized with all force that henceforward the main task of the Soviet people consists in the steady development of heavy industry which constitutes the firm base for the whole national economy and the defence and security of the country. "[3]

Similar official statements have been made in all eastern European countries, their immediate implications varying with the extent of the changes introduced in 1953 in the relative scale of priorities previously prevailing. Neither in those countries nor in the Soviet Union, however, does the present course imply a simple return to that pursued earlier. In the

[1] " Now our country has a powerful and technically perfect heavy industry . . . The solution of the problem of developing heavy industry as the first task has radically changed the relations between heavy and light industries in the whole volume of industrial production . . . Now, on the basis of the successes achieved in the development of heavy industry, we have all the conditions for organizing a sharp rise in the production of consumer goods. . . Hitherto we have had no possibility of developing light industry and the food industry at the same rate as heavy industry. At the present time we can—and therefore we must—in the interest of ensuring a more rapid increase in the material and cultural standards of life of the people, promote by every means the development of light industry." (Speech by Mr. Malenkov to the Supreme Soviet, 8 August 1953.)

[2] This followed various less official criticisms along the same lines (directed against a number of Soviet economists who had questioned the need for the continuing primacy of heavy industry in the economy). Among the most important of these was an authoritative article in *Pravda* by the editor, Mr. D. Shepilov, on 24 January, which was quickly given prominence throughout eastern Europe. The author reasserted the claims of heavy industry to a privileged position in the allocation of resources and even went so far as to maintain that only in exceptional circumstances could it ever be sound policy in a developing economy not to aim at continuously greater proportionate increases in the output of heavy industry than in the output of other branches of the economy.

[3] Academician K. Ostrovityanov, Vice-President of the U.S.S.R. Academy of Sciences, *Pravda*, 27 March 1955.

first place, there is no sign that the gains made by consumers in the intervening period are to be reduced, nor indeed that further increases in consumer goods production are not contemplated, though the expected increment in national output in some cases is to be allocated rather differently from that of last year. Second, the higher priority which had been given to investment in agriculture is being maintained and even extended. Finally, it may be noted that more now seems to be said than before about the importance of heavy industry as a supplier of equipment and materials not only to heavy industry itself and to the armed forces but also to agriculture and light industry.[1]

The New Plans in the Soviet Union

The main features of the Soviet budget for 1955 (see Table 16) are an increase of 12 per cent (12 billion roubles) in provisions for national defence and of no less than 25 per cent (21 billion roubles) in allocations to heavy industry. Provision for social and cultural services is increased by about 3½ per cent (5 billion

[1] Mr. Khrushchev recently emphasized that " the development of livestock farming was impossible without the development of heavy industry, which provided agriculture with tractors, farm machinery, etc." (*Izvestia*, February 1955.)

Table 16

THE PUBLIC ACCOUNTS OF THE SOVIET UNION 1953–1955

Billions of roubles

	1953 Final	1954 Budget	1954 Provisional	1955 Budget
Revenue				
Turnover tax	243.6 *a*	234.4	..	233.7
Deductions from profits	70.3 *a*	92.8	..	117.5
Direct taxes	46.1 *a*	45.7	..	48.4
Subscriptions to State loans	17.3 *a*	15.9	..	30.5
Increase in net deposits in Savings Bank	12.0 *a*	9.5	9.5	10.0
Social insurance premia	23.2 *a*	24.7	..	26.5
Other	127.2 *a b*	149.5 *b*	..	123.5 *b*
Total	539.8	572.5	557.5	590.2
Of which: From Socialist Sector	460.5	497.3	481.3	497.3
Expenditure				
National economy	180.4 *a*	216.4	213.4	222.3
of which: Heavy industry	82.6 *c*	79.7	..	101.2
Light industry		14.2	..	10.6
Trade	..		..	0.9
Agriculture and forestry	39.9 *c*	62.5	..	55.1
Transport and communications	..	21.5	..	23.0
Other	..	38.5	..	31.5
Social and cultural measures	128.8 *a*	141.4	141.9	147.0
of which: Education	61.1 *a*	67.2	..	68.4
Health and physical culture	24.2 *a*	29.3	28.9	30.5
Social security	23.0 *	23.6 *	..	25.0
Social insurance	15.9 *	16.5 *	..	18.0
Family allowances	4.6 *	4.8 *	..	5.0
Defence	110.2 *c*	100.3	..	112.1
Loan service	9.8 *a*	10.5	10.2	12.2
Administration	14.3 *c*	94.2 *b*	13.9	12.6
Other	73.9 *b c*		73.1 *b d*	57.3 *b*
Total	514.7	562.8	552.8	563.5
of which: Investment	106.7 *c*	121.1	*e*	109.3
Surplus	25.1	9.7	4.7	26.7

Sources: 1953 final, 1954 provisional from *Izvestia*, 4 February 1955; 1953 provisional from *Voprosy Ekonomiki*, No. 6, 1954; 1954 Budget from *Izvestia* 22, 28 April 1954; 1955 Budget from *Izvestia*, 11 February 1955, and *Soviet Weekly*, 21 April 1955.

a Provisional totals: the final figures for total revenue and expenditure differed from the provisional by only 0.1 billion roubles.

b By difference.

c Budget.

d Assuming exact fulfilment of defence budget.

e The plan for the volume of investment was not fulfilled (*Izvestia*, 21 January 1955).

roubles). On the revenue side provision is made for the doubling of subscriptions to the State loans, turnover tax receipts and rates of direct taxation are left more or less unchanged,[1] and contributions from profits increased by about 15 per cent. The budgeted surplus is back to the level of 1953. For the first time since 1949 no reductions in retail prices were announced in March or April.

The Minister of Finance severely warned enterprises against overspending the planned wages fund, announcing that penalties for overspending had been increased. Such warnings had been frequent in 1952 and earlier years but not during the intervening period of greater stress on consumption. There has been no change in the prices either of goods bought or of goods sold by farmers on the retail market, but it seems likely that a smaller amount of farm incomes will be available this year for personal consumption than last year. The plan for investment from collective farm funds is larger than in previous years (18 billion roubles in 1955 compared with 12.5 and 10.9 billions in 1953 and 1952 respectively), absorbing thereby one-third of the increment in farm income due to the procurement and price adjustments of 1953/54. These increased capital investments are to be "primarily directed towards improving the collective farm economy"[2] and only residual funds should be used for dwellings, clubs and other amenities. Requests that State building organizations should undertake work on collective farms and that farm investment should be wholly covered by State credits were firmly rejected by the Government.

A few details have been published of the 1955 operational plan. An increase in the gross value of industrial output of 9 per cent in 1955 is envisaged. Attainment of this objective will mean the overfulfilment of the Five-year Plan goal and, as a result of the preponderant weight of industry, of the national income goal. The operational plan calls for higher output in both heavy and light industry than was contemplated in the Five-year Plan. The increase in the plan for light industry is the net effect of a combination of a surplus of manufactured consumer goods and a deficit of foodstuffs, as compared with the original targets. The shortfalls in labour productivity compared with the target set in the Five-year Plan will be compensated by an over-plan intake of manpower, which by the end of 1954 was already about the same as planned for the end of 1955.

[1] In particular the cuts in the agricultural tax made in 1953 are not restored. The previous high rates had discouraged production from individual holdings.

[2] Mr. Khrushchev's Report, *Pravda*, 3 February 1955.

Index Numbers for 1955 (1950 = 100)

	Current operational plan	Original targets of the Five-year Plan
National income	164	160
Gross industrial output	180	170
Heavy industry	184	180
Light industry	171	165
of which: Food	160	170
Labour productivity		
Industry	142	150
Construction	143	155

Sources: Izvestia, 12 October 1952, 4, 6 and 10 February 1955.

Little has been published on investment plans for 1955 or, indeed, on investment achievements in 1954. Investment by the State (through the Budget or by economic organizations) is planned to be 167 billion roubles as compared with the 185 billion roubles planned for 1954. Though the 1954 plan is stated to have been underfulfilled, the shortfall can hardly have been great, given that the volume of State investment increased by as much as 15 per cent over the 1953 level. It therefore seems likely that investment, in money terms, is to be somewhat lower in 1955 than actual investment in the previous year. The amount earmarked for heavy industry is greater than that planned for 1953—93.5 as compared with 90 billion roubles. In real terms the increase in planned investment in heavy industry is probably somewhat greater than these figures would suggest, as in February a reduction was announced in the prices of heavy industrial products and freight rates with effect from 1 April 1955. It seems clear that investment by light industry is to fall somewhat.

Two other indications point to the same conclusion. First, the Minister of Finance has stated that resources are to be devoted primarily to the completion of key projects which were nearly finished: this policy, the enforcement of which will be made easier by the concentration of building enterprises currently under way, is bound to discriminate against the light industries, many of whose bigger investment projects were started only in 1954. Second, the return to higher rates of profit taxation may be expected to reduce the resources at the disposal of the light industries, which are the main earners of profits, more than those of the heavy industries.[3]

[3] Heavy industries appear, in fact, to receive substantial and increasing subsidies, since otherwise it is difficult to explain the size and growth of budget expenditures on the national economy for purposes other than investment, the more so as subsidies to State farms, which were included in the total in earlier years, have now been abolished. The totals given in the budget for non-investment expenditures on the national economy have moved as follows in recent years (in billions of roubles):

1953 : 85.8 ; 1954 : 95.3 ; 1955 : 113.0

Agricultural Policy in the Soviet Union

The Soviet authorities have continued to give prominent attention to agriculture: a programme for grain and livestock products covering 1955–1960 has been published, the procedure of agricultural planning has been decentralized and considerable efforts are being made to raise the productivity of individual farms.

The 1955–1960 programme of the Party Central Committee published in February bases the proposed doubling of the output of livestock products [1] upon expanded supplies of feed grains: 40 per cent of a gross crop, at least 25 per cent larger than at present, is to be allocated to fodder, instead of less than a quarter hitherto. Although personal ownership of livestock (within the permitted limits) is not again to be discouraged—as it was until the 1953 reforms—supplies are chiefly to be directed to collectively and State-owned stock. The planned shift in the structure of food consumption whereby less grain will be eaten directly and more as livestock products is reflected in a change in the composition of the grain output: in 1960 one-fifth of the grain area is to be sown to maize compared with 3 per cent in 1953. The overall production of grain envisaged for 1960 does not exceed current output by significantly more than the minimum crop expected from the virgin lands of Siberia and Kazakhstan now being ploughed. [2] It is planned to produce a gross crop of at least 10 billion poods (164 million tons) of grain in 1960 compared with somewhat less than 8 billion poods in 1954. It is hoped that the barn crop will increase more rapidly when increased supplies of harvesting machinery and other improvements reduce harvesting losses.

To support the agricultural production programme major improvements have been introduced into control and planning practice. The entire system of allotting each collective farm detailed plans for crops and stock was abolished by a Decree of 11 March and in future each farm is to be given only a procurement target for suitable produce (calculated upon the farm land at its disposal). The individual farm is free to decide how these goals and its own needs are to be met and to plan its own crop areas in consultation with the local machine-tractor station. The administration of State farms has also been decentralized.

It is recognized that the handing-back of the responsibility for farming decisions to local farmers can be successful only if farm chairmen are capable of taking control. Some 30,000 workers in other branches of the economy are to be given a rapid training to fit them to act as collective farm chairmen (there are 93,000 collective farms). Staffs of technical advisers on farms are being reinforced (there are now 47,000 zootechnicians actually working on farms). Training courses are expanding and a series of regional conferences of farmers is being held, each addressed by leading officials.

The Aims of Policy in the People's Democracies in 1954

During the period which started about the middle of 1953 the planning authorities in the People's Democracies seem to have had three main aims: to make a new start towards the solution of agricultural problems, to remove the lack of balance between the basic industries—mining, steel and electric power—and the somewhat top-heavy industrial superstructure created since the war, and, perhaps most important of all, to bring about an immediate and substantial improvement in standards of living. The familiar indices of total industrial production thus lost some of their earlier significance as measures of the achievement of the economies, and any account of actual developments must take as its starting-point indicators bearing on one or other of these three objectives of policy.

Agriculture in Eastern Europe in 1954

At this stage in the development of agricultural policies it is still necessary to discuss their effects in terms mainly of farm input rather than output. In Hungary and Rumania, the two countries where the 1953 policy change was more extreme than elsewhere, the incentives policy has already had a perceptible effect on output. Fodder supplies were better in Hungary in 1954 in spite of relatively bad weather, and the number of pigs increased by about 20 per cent over the year; in Rumania the campaign to increase the share of the land devoted to maize had succeeded to such an extent that the area under maize was in 1954 already as great as the target area set for 1956 in the short-term agricultural plan published in 1953. But in general the progress of agricultural planning has to be measured by reference to the changes experienced in the supply of the factors of production in agriculture.

By the end of 1954 the total area under cultivation had expanded in all those countries where it had earlier been falling. The abandonment of land had been brought to an end: derelict land still remained in

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[1] The 1960 meat and fat targets are slightly above, and the milk yield and wool clip targets somewhat below, those set in the Fifth Five-year Plan for 1955.

[2] 28 million hectares (the 1960 goal for grain on the virgin lands) should be ploughed up by the end of this year, and sown to grain in 1956. By 1960 more will have had to be ploughed to compensate for other rotation crops and fallow.

the autumn of 1954 in Czechoslovakia and Poland but had been practically eliminated in Hungary.

The manpower position remained acute in Czechoslovakia. It had been hoped to recruit 105,000 additional workers to agriculture in 1954: only 17,000 were forthcoming. Little progress was made in manning-up State farms in those parts of Poland where the labour-land ratio is anomalously low. But after the terms of trade had been turned in favour of farmers greater effort was put forth by peasants and co-operative farm managers. In Hungary, for instance, the average number of labour days worked by members of co-operatives increased from 234 in 1953 to 265 in 1954. The result of these increased efforts in all countries was a better preparation and use of the land.

Supplies of fertilizers increased in all countries as a result both of the expansion of domestic output [1] and of indirect imports.

In Czechoslovakia, for example, supplies of nitrogenous fertilizers were up by 30 per cent and of superphosphates by 12 per cent. In Hungary production was only about two-thirds of the amount planned, as a result of a delay in bringing into operation new nitrogenous fertilizer capacity, but thanks to increased imports total supplies available rose by more than one-third. Production of fertilizers increased by 200 per cent in Rumania, which had hitherto depended on imports for the bulk of its supplies.

Finally, the volume of investment in agriculture was up on the 1953 levels by substantial amounts in all countries—by almost one-fifth in Hungary, more than one-third in Poland and by 50 per cent or more in Bulgaria and Rumania. In addition, as was mentioned above, peasants' purchases of building materials and tools, which are not counted in the estimates of investment unless bought on credit, increased dramatically. The numbers of some types of large-scale machines supplied to agriculture in the last two years are recorded in Table 23. These went predominantly to the machine and tractor stations, which are now in some countries able to extend rather widely the services they offer to private farmers: in Hungary about 40 per cent of the total work of the stations is planned to be for individual peasants in 1955, as compared with 30 per cent in 1954.

The Basic Industries in 1954

Eastern Europe's bottleneck industries are the classic ones of all developing economies: mining, steel, electric power and building materials. In the case of electric power the pace of development was held back by the world shortage of machinery for the manufacture of generating equipment, and export orders for generators competed with domestic needs. More generally, the planning authorities have wanted to avoid increasing capacity, which by its nature must be in large units, each very costly, faster than the demand for its products expanded, with the result that demand has regularly tended to press against capacity in basic industries. This problem of indivisibilities is probably insoluble in small countries which want to develop fast, unless they and others are able and willing to have a rather active international trade. In each of the countries of eastern Europe, except perhaps Poland, the strain on capacity had reached an acute phase by 1953.

The solution attempted in the various countries all had one common feature—a decision to reduce the rate of increase in the demand of the fabricating and building industries for the products of the bottleneck industries. In practical terms this meant a slackening of the rate of expansion of industrial investment and in Hungary even an absolute reduction in the total level of investment. Meanwhile, investment in mining and electric power stations was to proceed at least as fast as before. In Czechoslovakia, eastern Germany and Poland the expansion of steel output was also to go on unchecked. The steel industries of the smaller producing countries, Hungary and Rumania, both handicapped by their dependence on distant sources for their ores, were to stabilize their output in the knowledge that it would be factors other than steel supplies which would limit the output of their engineering industries. Cement production was to increase by 20 per cent in Czechoslovakia and by 40 per cent, in two years, in Poland; elsewhere production was to remain more or less unchanged.

In the event the shortage of electric power became considerably less serious in 1954. In eastern Germany and Rumania there were record increases in generating capacity and in all countries, for the first time for several years, the output of electric power increased faster than total industrial production. Steel production expanded according to plan in Poland but fell short of the planned figure in Czechoslovakia. In Hungary and Rumania there was an absolute decrease in the output of steel and cement. Cement production in Czechoslovakia increased by less than half the required amount.[1]

[1] See Tables I to V in the Appendix to this article.

[1] For figures of the actual and planned production of these and other commodities in 1954, see Tables I to V in the Appendix to this article, which continue the series given in Table LV to LX of the *Economic Survey of Europe in 1954*.

The least progress in eliminating bottlenecks was recorded in the case of coal. Every old-established coalfield sooner or later exhausts its better seams. Output per man can be maintained only at the cost of increasingly heavy capital expenditure. This is now a serious problem in all the old coalfields of eastern Europe. Eastern Germany seems to be well on the way to solving its problems as output is expanded in the new Senftenberg coalfield. It was, however, recently stated officially that output per man in the Polish coal-mining industry had actually fallen since 1951. In Czechoslovakia over the last five years the cost of production of hard coal has increased by 45 per cent and of brown coal by nearly one-third. The proportion of low-quality fuels in Hungary's output of lignite and coal is steadily increasing. The position is, in a sense, most serious for Poland, which finds itself in danger of gradually losing an easily available source of foreign exchange.

Standards of Living in 1954

Such information as has been published by eastern European Governments on the development of personal consumption points to considerable gains in this field during the last year or so. It is estimated by the Government of Czechoslovakia that the real wages of wage- and salary-earners at the end of 1954 were at a level 20 per cent higher than in the third quarter of 1953. For technical reasons the official index of real wages is likely to be somewhat higher than an index calculated in the way usually adopted in western Europe.[1] An independent calculation, however, made by comparing changes in money wages with changes in the retail cost of a basket of goods and services of constant composition, gives an increase in the real wages of industrial workers between June 1953 and September 1954 of the same order of magnitude (see

[1] The official estimate was obtained by dividing an index of the average earnings (not wage-rates) of industrial workers by a chain index of retail prices weighted by the quantities of goods and services bought in the current period. If saving be neglected, the index of real wages can thus be represented by a Laspeyres quantity index of consumer goods and services bought:

$$\Sigma \frac{q_1}{q_0} w, \text{ where } w = \frac{p_0 q_0}{\Sigma p_0 q_0}$$

(p and q relating to the prices and quantities of commodities respectively and the subscripts o and $_1$ to periods of time). The indices of real wages calculated in western countries are normally of the form

$$\Sigma \frac{q_1}{q_0} w', \text{ where } w' = \frac{p_1 q_0}{\Sigma p_1 q_0}.$$

If it is assumed that the authorities reduce the prices of those commodities which are in relatively plentiful supply, that supply is in general unresponsive to changes in relative retail prices and that the market is cleared for each commodity, then it follows that the ratio w/w' is greater for commodities whose quantities are increased than for commodities the quantities of which remain unchanged. In other words, on these assumptions (which are plausible for a centrally planned economy) a Laspeyres quantity index will tend to be somewhat higher than the Paasche index normally used in other countries. This will be so whether prices are rising or falling. Only small differences between the two indices could be expected in year-to-year comparisons; over a period of years, however, an appreciable discrepancy might well accumulate.

Table 17

COST OF LIVING AND WAGES OF INDUSTRIAL WORKERS IN CZECHOSLOVAKIA [a]

December 1950 = 100

	1952	1953			1954	1955	Proportion of expend ture on the family budget used in the calculation at April 1955 prices
	December	June	October	December	September [b]	April	
Cost-of-living index							
Food	142	159	153	152	142	141	67
Clothing	92	97	86	86	70	66	11
Rent	100	100	100	100	100	100	3
Heat and light	112	112	109	109	105	103	4
Other goods and services	99	85	79	79	79	76	15
Total	121	128	121	120	112	110	100
Index of average money earnings [c]	119	130	..	131	138	..	
Index of real wages	98	102	..	109	123	..	

[a] The 99 commodities covered by this cost-of-living index, together with their weights in the base year, are listed in Table LV, A, of the *Economic Survey of Europe in 1953*. Some revisions have been made to the figures published there and in Table 8 of the *Economic Bulletin for Europe*, Vol. 6, No. 1, in the light of new information published in *Statistický Obzor*, No. 4, 1954 and *Rudé Právo*, 31 March and 1 to 3 April 1955. It is believed that the new estimates reflect more accurately changes in the clothing index, which nevertheless remains subject to greater error than the other indices because of the difficulty of making adequate allowance for the significant changes in the quality of goods—downwards until mid-1953 and upwards since then. It will be observed, however, that errors in the clothing index cannot greatly affect the index as a whole, as the weight of clothing in the whole index is quite small.

[b] Retail prices were reduced in April 1954 and maintained unchanged until April 1955.

[c] *Rudé Právo*, 27 November 1954.

Table 17). Official estimates for Hungary and Poland (made in the same way as the Czechoslovak estimate) give increases of 15 per cent and 12 per cent respectively in average real wages. Precise information is not available for the other countries of eastern Europe, but the scattered figures available suggest an increase of 15 per cent in Bulgaria and about the same in eastern Germany.

The increase in farmers' real income were less uniform as between one country and another. The increase in the purchasing power of peasants' cash receipts was probably of the order of one-tenth in Poland, in Czechoslovakia it approached one-third, and in Hungary one-half; in Bulgaria such rise as occurred was small. These estimates are subject to the same *caveat* as the corresponding estimates of the increase in real wages and to two additional qualifications: they relate only to the increase in farmers' cash receipts and they measure this in terms of purchasing power over building materials and farm requisites (the prices of which have in general fallen by more than the average) as well as manufactured consumer goods proper.

The extent to which increased real income was provided in the form of reductions of retail prices and in the form of adjustments of money incomes respectively varied from country to country. In Czechoslovakia and eastern Germany, as Table 18 shows, the bulk of the extra purchasing power in consumers' pockets was the product of price reductions. In Poland increases in money wages were more important to urban workers than reductions in prices, and in Hungary the two were probably of about equal importance (allowance being made in each case for the fact that part of the benefit from price-cuts accrued to the rural population). The main part of the extra purchasing-power of the farm population in Hungary seems to have come in the form of increased money incomes—that is, by way of higher prices for farm produce; in Bulgaria, on the other hand, where there was no retreat from the policy of collectivization and only slight modifications in delivery obligations, increases in peasants' cash receipts were small.

Table 18

INCREASES IN CONSUMERS' PURCHASING POWER IN 1954 [a]

Increases in the annual rate between the first half of 1953 [b] and the second half of 1954

Billions of national currencies

	Bulgaria	Czecho-slovakia	Eastern Germany	Hungary	Poland
Increases in disposable money income:					
Increases in wages and pensions	0.2	0.9	1.4	1.5	8.3
Increases in farm income	..	1.9	0.4	3.05	2.8
Decreases in direct taxation	0.14	1.0	—	—	—
Decreases in subscriptions to State loans	−0.07	—	—	0.7	—
Total of above	>0.2	3.8	1.8	5.25	11.1
Increase in purchasing power resulting from reductions in retail prices	1.0	10.7	4.5	1.87	8.0
Total increase in purchasing power [a]	>1.2	14.5	6.3	7.12	19.1
Increase in consumers' purchasing power expressed as a percentage of State Budget expenditure in 1953	>7	17	18	14	20

Sources: Economic Bulletin for Europe, Vol. 6, No. 2, page 20; *Rabotnichesko Delo*, 2-6 February 1955; *Statistický Zpravodaj*, No. 4/1954, pages 120-121; *Rudé Právo*, 23 March 1955 (Mr. Duriš's speech) and 31 March 1955 (Mrs. Jankovcová's speech); *Neues Deutschland*, 30 July, 17 and 25 October, 12 December 1953, 10 June and 5 September 1954; *Finanzwirtschaft*, No. 5, 1954; *Szabad Nép*, 8 October, 10 November 1953, 20, 23, 24, 26 January, 21 February, 3, 17 October 1954; *Trybuna Ludu*, 8 February 1955.

[a] The increases in consumers' purchasing power shown in the table are obtained as the sum of the *actual* increases in disposable money income and the increases in purchasing power *planned* to result from the price reductions, each component expressed at an annual rate. The increases in disposable income can, if personal saving be disregarded, be approximated by $(\Sigma p_1 q_1 - \Sigma p_0 q_0)$ where the p's and q's represent the retail prices and quantities respectively of consumer goods and services sold and the subscripts o and $_1$ refer to the first half of 1953 and the latter part of 1954 respectively. The estimates of the increases in purchasing power resulting from price reductions are known to be of the form $\Sigma (p_o - p_1) q'_1$, where q'_1 stands for the quantities planned to be consumed in the twelve months following reductions in prices. The sum of these two expressions, which is shown in the table, is thus of the form $\Sigma p_o (q_1 - q_o) + \Sigma (p_o - p_1)(q'_1 - q_1)$, where the first term represents the actual increase in the volume of consumption on the basis of a Laspeyres index of quantity and the second term measures the extent to which expectations are not exactly fulfilled. If sales of commodities whose prices are reduced are less than was planned (which may well happen if these commodities are inferior goods) the second term is positive and the whole expression over-estimates the true increase in purchasing power.

[b] The third quarter of 1953 in the case of Czechoslovakia.

Table 19

INDEX NUMBERS OF RETAIL TRADE TURNOVER IN FIVE EASTERN EUROPEAN COUNTRIES

In comparable prices

	1950 = 100	Total volume of retail sales in 1953 = 100			
			1954		1955
	1953 Actual	1953 Actual	Plan announced at beginning of year	Actual	Plan announced at beginning of year
Czechoslovakia	133 [a]	100	111	120	126
Eastern Germany					
State shops	255	39.1	75.7	43.4	..
Co-operative shops		29.9		33.5	..
Private trade	86	31.0	37.5	36.6	..
Total	158	100.0	113.2	113.5	120.3
Of which:					
Food	..	63.3	..	68.4	71.6
Manufactures	..	36.7	..	45.1	48.7
Hungary					
Food	..	43.3	48.5	45.7	71
Catering	..	17.1	21.4	22.2	
Manufactures	..	39.6	50.3	51.7	57
Total	101	100.0	120.2	119.6	128
Poland					
Socialist trade	112 [b]	100	113.5 [c]	118	130.5
Rumania					
Total Socialist trade:	155	100	115.7	115.3	136.6 [d]
Food	..	..	..	117.7 [e]	..
Catering	..	..	..	120.8 [e]	..
Manufactures	..	..	..	112.3 [e]	..

Sources: Plans and Plan fulfilment reports.

[a] 1948 = 100.

[b] Total trade (including private).

[c] Derived from Plan fulfilment data.

[d] A figure first announced in 1953 but still mentioned in current policy statements.

[e] Volume of sales of this kind in 1953 = 100.

These increases in personal incomes naturally brought a sharp rise in retail sales (see Table 19). In eastern Germany, Hungary and Rumania the actual increases in the total volume of goods sold at retail (including building materials and farmers' requisites as well as consumer goods) were very close to the targets called for in the operational plans for the year. Retail sales exceeded planned sales by an appreciable amount in Czechoslovakia and Poland. The same was true of some commodities in all countries. An extreme example is provided by retail sales of bricks (mainly in the countryside) in Hungary: these had been planned to increase from 25 million bricks in 1953 to 112 millions in 1954; actual sales were 344 millions.

Sales tended to increase most rapidly in sectors where they had been most depressed before. In general, retail turnover increased faster in the countryside than in the towns, sales of metal goods faster than sales of textiles and footwear (though in eastern Germany and Hungary the expansion in the volume of textiles sold—approximately a doubling from 1952 to 1954—was remarkable), and, except in Rumania, sales of textiles faster than sales of food through the retail trade network. In most countries—eastern Germany is an exception—sales of food on the free market, which are not covered by the series presented in Table 19, increased faster than sales in State and co-operative shops. Thus, in Hungary consumers' purchases of food in the free market comprised, according to an official estimate, 14 per cent of total purchases of food in 1954, as compared with 8 per cent in 1952.

Nevertheless, there remained a persistent shortage of certain kinds of food—mainly animal products—in the more industrialized countries, and notably Czechoslovakia and eastern Germany, in the strict sense that there was an unsatisfied demand for food at existing prices, demonstrated by the familiar symptom of queues formed before the opening hours of shops. At the same time personal saving increased —by 1 billion crowns, or more than a quarter of the increment of money income, in Czechoslovakia in 1954 [1]—and retail stocks of some manufactures piled up. Official recognition of the tightness of the food position can be found in the policy of cheapening manufactured goods relatively to foodstuffs.[2] The discrepancy between demand and supply would have been more serious but for the willingness of Governments to bridge some part of the gap by imports—of considerable size in Czechoslovakia and eastern Germany and abnormally great even in the case of Hungary and Poland, traditionally food exporters—and by running down centrally held stocks.[3]

The Recent Campaign to reduce Costs

The position at the end of 1954 was thus that consumption had outrun the production of consumer goods and that consumers' purchasing power had outstripped consumption. It has been the custom in the Soviet Union from time to time to reduce some retail prices by more than was justified by a nice comparison of the extra supplies in sight and the extra demand thus created. The reasoning behind this is presumably that a single big reduction in the prices of durable goods is likely to have a greater incentive effect on workers than a gradual downward slide of prices. It is possible that some of the excess demand in eastern European countries was deliberately created for the same reason.

However this may be, it is quite certain that not the whole of the increase in money incomes was designed. Peasants sold an undue proportion of their output through the free market. More important, many managers overspent their wage-funds.[4] An overhang of purchasing-power need not have a cumulative effect in a planned economy, in which investment and production decisions are to a large extent centralized or at any rate under central control. But an inflation of income is also, looked at from the point of view of the enterprise, an inflation of costs and if, as was hitherto the case in eastern Europe, the link between cost and price is tenuous, an unwanted increase in an enterprise's cost may, if it goes beyond a certain point, imply an uncovenanted subsidy from the State. This is what happened to an increasing extent in the rather relaxed atmosphere of the last two years. Obviously it was particularly inconvenient to have a lack of any systematic correspondence between costs and prices at a time when an increasing number of marginal decisions had to be taken in the field of foreign trade policy.

Efforts to restore financial discipline in industry have now begun in all countries of eastern Europe, but in particular in eastern Germany and Hungary. Managers of enterprises have been informed that from now on they will not be able to recoup themselves for exceeding the cost limits laid down in their plans; workers have been warned that their wages are to be tied closely to their performance.

There have been attempts on earlier occasions to reduce labour costs with the same end in view: the raising of wage norms in eastern Germany just before the change of policy in 1953 was the last important such instance. The present approach to the problem, however has its novel features in that it appears to delegate more powers to, as well as to impose more responsibility on, the enterprise manager.

If its effect is merely to damp down money incomes its overall effect will be without much importance: it will merely have prevented unspent cash balances from increasing in consumers' pockets. But if it stimulates managers and workers to greater efforts and ingenuity it will permit output to increase faster than at present and give Governments a margin to play with, in that not the whole of the extra output need take the form of consumer goods.

Analogous efforts are being made by several Governments to strengthen controls somewhat in agriculture. During 1954 fiscal discipline, in the sense of the enforcement of the delivery obligations of peasants, had been relaxed, and even in Poland, where the

[1] In eastern Germany savings deposits and purchases of mortgage bonds increased by DM.350 million in the first quarter of 1955. Mr. Grotewohl commented on this in the following terms (*Neues Deutschland*, 20 April 1955): "The changes in the volume of savings play an important role with us. They permit us to balance discrepancies between purchasing power and its commodity cover and—in addition—they are a sign of the confidence of our population in the stability of our currency".

[2] This illustrates once more the upward bias implicit in current-weighted price indices, particularly in the case of planned economies, where retail prices can be adjusted to changes in supply but there is only slight possibility that there will be an "automatic" and partially compensating adjustment of supply to changes in retail prices.

[3] It is officially stated that in 1954 raw materials and consumer goods to the value of 1 billion forint were mobilized from the reserve stocks of Hungarian enterprises and State institutions.

[4] In eastern Germany labour costs per unit of gross output in nationalized industry were planned to fall by 1.3 per cent in 1954; they rose in fact by 5.6 per cent.

harvest was relatively good, and Hungary, where delivery obligations had been reduced, deliveries to the State buying organizations were below expectations.

Peasants are now being encouraged, by the offer of contracts, to direct more of their produce through the official channels. There are, moreover, a number of recent measures designed to reduce individual peasants' incomes relatively to those of members of co-operatives. In both Hungary and Poland the fees payable by co-operative farms for the services of the machine and tractor stations have been reduced, while those payable by individual peasants, which were already substantially higher (in Hungary one-to two-thirds higher), have been left unchanged. Similarly, delivery obligations for meat were this year raised in Bulgaria for private farmers, who own the majority of the country's animals. A decree issued in Hungary in February forbids individual peasants to sell meat and lard on the free market.

The Resource Allocation Plans for 1955 in Eastern Europe

The 1955 plans of the People's Democracies published in December 1954 or early in 1955 do not indicate any great changes from those for 1954 in the pattern of output or in the rates of growth laid down for the year. The targets set for agriculture are of the same order of magnitude as in 1954, and the plans

Table 20

GROSS OUTPUT OF INDUSTRY

Percentage increases over the previous year

	1952 Actual	1953 Actual	1954			1955 Plan announced at beginning of year
			Plan announced at beginning of year	Plan as revised during year [a]	Actual	
Albania						
Total	20	22	13	14	11	10
Bulgaria						
Total	18	12	8	7	9	7
Producer goods	25	23	14	..	..	..
Consumer goods	10	4	5	..	3	6
Czechoslovakia						
Total	18	10	6	2	4	7
Producer goods	27	5	6	..	4	7
Consumer goods	10	19	5	..	5	7
Eastern Germany						
Total	16	13	13	10	10	8
Producer goods	17	15	7	..	..	8
Consumer goods	14	10	21	..	16	8
Hungary						
Total	24	11	4	2	3	6
Heavy industry	33	18	4	..	— 3	..
Light industry	11	— 1	3	..	10	..
Food industry	16	10	9	.	12	..
Poland						
Total	20	18	11 [b]	9 [c]	11	9
Producer goods	22	..	..	..	11	6
Consumer goods	12	..	..	..	11	11
Rumania						
Total	22	14	8	6	7	..
Producer goods	..	20	5	..	4	..
Consumer goods	..	8	12	..	11	10

Sources: Plans and Plan fulfilment reports.

[a] The figures in this column were obtained, except in the case of Poland, by dividing the published indices of actual production in 1954 (1953 = 100) by the published percentages of Plan fulfilment in 1954.

[b] It was announced in 1953 that current plans contemplated an increase of 22 to 23 per cent in the output of both producer goods and consumer goods during the two years 1954 and 1955.

[c] Direct communication by the Polish Government.

for the various branches of agriculture follow much the same lines as were foreshadowed earlier. The increases in total industrial output called for are not greatly different from those achieved in 1954: in the case of Czechoslovakia and Hungary, two of the countries where the adjustments of the last two years had been—for somewhat different reasons—greatest, a stepping-up of the recently rather slow rates of increase is required. Elsewhere a further slackening of the rate of growth is indicated. Except in Bulgaria, the plans contemplate, as Table 20 shows, increases in the output of consumer goods at least as great as those in producer goods industries and in some countries greater.

Consistently with this, the Hungarian plans stipulate a maintenance and the Polish plans an increase, of the share of personal consumption in the national income and in all countries provision is made for a continued increase in the volume of retail sales (see Table 19), though naturally at a lower rate than in the exceptional year 1954. Investment (see Table 21)

Table 21

TOTAL VOLUME OF INVESTMENT

Billions of national currencies at constant prices

	1953	1954		1955
	Actual	Plan announced at beginning of year	Actual	Plan announced at beginning of year
Bulgaria				
Total (*Index numbers*)	*100*	*108*	*98*	*112*
Czechoslovakia				
Agriculture	1.1	2.3	2.0	4.0
Industry	8.4	9.6	..	..
Total	19.8	23.4	20.0	23.4
Hungary				
Agriculture	2.1	3.25	2.5	2.3[a]
Light industry	0.5	0.55	..	0.8
Heavy industry	7.5	4.5	..	3.2
All industry (including construction industry)	8.0	5.0	4.7 *	4.0
Housing [b]	1.0	1.5	1.3 *	1.2
Other	5.2	3.7	2.9	1.5
New investment	16.3	13.5	10.9	9.0[a]
Renewals [c]	3.5	3.5	3.9	4.8
Total	19.8	16.0	14.8	13.8[a]
Poland				
Agriculture	2.9	..	3.8	4.0
Industry and building enterprises	18.6	..	16.9	15.5
Housing	3.7	..	4.7	5.0
Other	7.9	..	8.4	8.7
Total	33.1	..	33.8	33.2

Sources: **Bulgaria:** *Rabotnichesko Delo*, 10 April 1954, 27 January 1955; *Izvestia na Prezidiuma na narodnoto Sobranie*, No. 1, 1955. **Czechoslovakia:** *Statistický Obzor*, No. 10, 1954; *Rudé Právo*, 31 January 1954, 3 and 15 February and 23 March 1955; *Plánované Hospodářství*, No. 7, 1954, pp. 479-490, No. 8, 1954, pp. 535-549. **Hungary:** *Magyar-Szovjet Közgazdasági Szemle*, No. 8-9, 1954, pp. 712-714, 716, 721 and 722; *Szabad Nép*, 23, 24 and 27 January 1954; *Társadalmi Szemle*, No. 1, 1954, p. 41; *Statisztikai Tájékoztató*, No. 2, p. 8; and *Szabad Nép*, 20 April 1955. **Poland:** *Trybuna Ludu*, 3 November 1953 and 4 and 6 November 1954, 26 January 1955; *Gospodarka Planowa*, No. 3, p. 2; and Plan fulfilment reports.

a In agriculture, State investment only.

b Includes subsidies to private house-building.

c Defined as "repairs involving a replacement of essential components of fixed capital equipment".

Table 22

THE PUBLIC ACCOUNTS OF EASTERN EUROPEAN COUNTRIES

Billions of national currencies

	Bulgaria				Czechoslovakia				Hungary				Poland			
	1953	1954		1955	1953	1954		1955	1953	1954		1955	1953	1954		1955
	Final	Budget	Provisional	Budget	Budget [a]	Budget	Provisional	Budget	Final	Budget	Provisional	Budget	Budget	Budget	Provisional	Budget
Receipts																
Turnover tax	8.5	9.0	..	..	44.6	46.4	40.7	44.9	27.9	34.8	..	..	76.5	87.7	..	..
Deductions from profits tax	2.8	2.8	..	..	13.8	16.7	..	13.0	4.9		..	..				
Other receipts	—	—	..	..	7.8	2.2	..	3.2	3.7	3.0	..	..	10.4 [b]	11.9 [b]	..	..
Total receipts from Socialist sector	11.3	11.8	12.8	14.2	66.2	65.3	..	61.1	36.5	37.8	..	..	86.9	99.6	..	105.3
Direct taxes	1.3	1.1	1.1	1.1	7.2	10.2	..	10.3	3.2	3.7	..	..	10.1	11.6	..	12.8
Subscriptions to State loans	0.3	0.5	0.4	0.3	..	..	..	..	1.0	1.1	1.1	..	0.8	0.7	..	1.1
Other receipts	4.9	4.8	2.8	2.6	13.6	12.3 [c]	..	14.8 [c]	9.2	7.1	..	..	3.3	3.5	..	2.8
Total	17.9	18.2	17.1	18.2	87.0	87.8	..	86.2	49.9	49.7	45.3	47.0	101.1	115.4	114.3	122.0
Expenditure																
National economy	*10.5*	9.5	..	9.4	50.9	48.5	41.4	43.9	29.5	28.7	..	25.2	49.4	53.6	..	60.8
Social and cultural measures	3.1	3.6	3.6	3.8	22.2	27.4	26.3	28.3	8.7	10.1	10.0	10.4	23.5	25.4	26.1	28.9
Defence	*2.1*	1.9	1.9	1.9	8.4	7.8	..	10.4	8.2	7.2	..	7.8	10.4	10.6	..	11.9
Administration	*1.9*	2.0	0.8	0.7	3.8	3.8	..	3.4	1.9	1.9	..	2.0	9.9	10.0	..	10.3
Other			..	1.4	0.9	0.1	..	—	0.7	—	..	0.1	3.8	3.9	..	3.0
Total	15.8	17.0	16.7	17.3	86.2	87.6	..	86.0	49.0	47.9	44.0	45.5	97.0	103.5	104.2	114.9
Of which investment through the budget	3.5	3.9	..	4.0	19.0 [d]	20.0 [d]	..	22.8 [d]	15.8 [e]	12.6 [e]	10.0 [e]	9.0 [e]	..	..	..	..
Surplus of Receipts over Expenditure	2.1	1.2	0.4	0.9	0.8	0.2	..	0.2	0.9	1.8	1.3	1.5	4.1	11.9	10.1	7.1

Note. — Italicized figures are budgetary estimates and do not add up to the final total.

[a] No figures of actual receipts and expenditures have been published for 1953. The surplus is, however, stated to have been greatly above the budget estimate—6.6 billions, as compared with 0.8 billions.

[b] Social insurance receipts.

[c] Social insurance receipts, estimated at 11.7 billion in 1954 and 12.0 billion in 1955, are included in this item for reasons of uniformity.

[d] Productive investment.

[e] Total investment (excluding renewals).

is to be stabilized or only slightly increased, and the share of agriculture and the basic industries—coal, power and steel—in investment is to be increased. In Czechoslovakia it is hoped to match last year's 20 per cent increase in foreign trade turnover by a similar increase in 1955. All the other countries are aiming to increase their total trade, though at what rate is not specified.

Almost the only sign of changes in allocations is the increased provision for national defence made in the State Budgets, and in this instance as in others no change is occurring in Bulgaria (see Table 22).

It is difficult to reconcile this stability with the renewed emphasis laid on the importance of speedy industrialization and in particular of the further expansion of heavy industry. The explanation may lie in the time-lag between the formulation of general ideas and their elaboration in detailed operational plans. The plans for 1955 were, of course, worked out before the end of 1954 and may be subject to modification in the light of later developments at home and abroad. It is indeed very probable that they are already obsolete in some of their details.

It is unlikely, however, that this could apply to the broad lines of policy in the current year, which are in any case conceived as plans for a year of transition from one Five-year planning period to another.[1]

It seems certain that agriculture will continue to have one of the highest priorities in the competition for investment resources. The plans for increasing supplies of agricultural machinery (see Table 23) and fertilizers are quite evidently still operative, as are the plans for expanding the output of tools and machinery for small farmers. Much current Press comment is devoted to the importance of draining and irrigating land in the interests of improved pastures.

There is no reason to believe that the plans for increases in the output of consumer goods are not still operative, though they might be difficult to achieve if harvests were bad. Reductions in retail prices were announced in April in Czechoslovakia, Poland, Bulgaria and Rumania. The reductions, though smaller in scope than those of April 1954, still represent rather considerable additions to purchasing power in at least two cases.

[1] The Secretary of State in the Hungarian Ministry of Finance, Mr. István Antos, gives the following interpretation of the 1955 plans: " This year is a year of transition between the first and the second Five-year Plan. . . It therefore follows that we have to advance towards the liquidation of disproportionalities that arose in the period of the first Five-year Plan, and towards the elimination of the factors that impede the process of enlarged socialist reproduction, thus warranting a fully dynamic beginning for the implementation of the Five-year Plan in 1956 on a sound and firm basis " (*Társadalmi Szemle*, No. 2-3, 1955, page 27).

Official Estimates of the Increase in Purchasing Power resulting from Reductions in Retail Prices [a]

(Billions of national currencies at annual rates.)

	April 1954	April 1955
Bulgaria	1.0	0.65
Czechoslovakia	5.6	1.3
Poland	4.0	4.0

[a] For a definition of these estimates see footnote [a] to Table 18.

In Czechoslovakia the selection of commodities—mainly manufactured goods—whose prices were cut this year suggests that one reason was the desire to reduce hitherto unsaleable stocks. In Bulgaria, too,

Table 23

SUPPLIES OF LARGE-SCALE FARM MACHINERY TO AGRICULTURE IN EASTERN EUROPE

Thousands

	1953 Actual	1954 Plan	1954 Actual	1955 Plan
Tractors				
Bulgaria	1.2[a]	1.8[a]	2.72[a]	..
Czechoslovakia	2.2	..	8.9[a]	..
Hungary[b]	0.8	4.0	4.6	6.0
Poland	6.78[a]	..	8.0[a]	..
Rumania	2.54	1.63	3.29	2.54
Tractor ploughs				
Czechoslovakia	3.3	..	3.17	..
Hungary	1.3	5.5	3.1	4.1
Rumania	5.9	3.46	3.1	4.37
Tractor cultivators				
Czechoslovakia	..	..	3.75	..
Hungary	..	1.6	..	2.1
Rumania	0.9	1.15	1.93	2.0
Combine harvesters				
Bulgaria	0.2	0.57	0.54	..
Czechoslovakia	0.45	..	0.75	..
Hungary	0.6	0.4	0.4	..
Poland	0.5	..	0.7	..
Rumania	0.16	..	0.46	0.82
Harvester binders				
Czechoslovakia	0.40	..	3.9	..
Rumania	1.47	1.40	1.31	1.63
Threshing machines				
Hungary	0.9	1.0	0.95	1.03
Rumania	0.85	1.35	0.9	1.2
Tractor seed drills				
Czechoslovakia	1.1	..	5.8	..

Sources: Plans and Plan fulfilment reports.

[a] In terms of 15-HP units.

[b] Ploughing tractors only.

the main reductions were in the prices of manufactured goods—clothing and footwear, both of which became notably cheaper, soap and building materials: among foodstuffs only pork and mutton were affected.[1] The Polish cuts in the prices of textiles and footwear were substantial (11 per cent for rayon, 10 per cent for cotton goods, 8 per cent for woollens and 10 per cent for leather footwear); farmers' tools and equipment were reduced by even more; some semi-luxuries such as vacuum cleaners, hair dryers and cosmetics were cheapened; finally, the prices of both home-produced fats (lard, dripping and butter) and imported oils were lowered. The total effect on the cost of living may be estimated at about 2½ per cent (see Table 24). The Rumanian reductions affected clothing, footwear, household goods and some processed foods (noodles, canned foods, coffee-substitute, fruit-juices); no estimate of their "saving" effect has been published.

[1] For a list of the prices at different dates of certain foodstuffs and clothes in Bulgaria, see Table VI in the Appendix to this article.

Table 24

COST OF LIVING IN POLAND[a]
December 1950 = 100

	1952	1953 Sept.-Nov.	1954 May	1955 April	Proportion of expenditure on the family budget used in the calculation at April 1955 prices
Food	163	251	244	241	66
Clothing	170	168	148	136	16
Rent	100	100	100	100	2
Heat and light .	167	185	182	176	7
Household goods	173	173	161	151	3
Other goods and services . . .	111	119	116	113	6
Total . . .	159	205	196	191	100

Sources: Trybuna Ludu, 1 May 1954 and 23 April 1955; *Economic Survey of Europe in 1953*, page 64.

[a] This is an index of the cost of purchasing the basket of goods and services covered by the pre-war official index of the cost of living (officially used until 1947) of workers' families in industrial districts. For details of the weights see *Economic Survey of Europe in 1953*, Table LV, D.

There remains the possibility that total industrial output, and in particular the output of heavy industry could be increased more than was demanded by the published plans. The limits on such surpluses, not offset by serious shortfalls, are probably rather tightly drawn: in spite of the progress made since 1952 the basic industries are still bottlenecks. But it seems plausible to suppose that the eastern European economies still have some slack in them: it was indeed clearly one of the purposes of the policy modifications made in 1953 and 1954 to create precisely such a slack in the interests of the smoother running of the systems. The industrial targets of the last two years and the current year are modest by the standards set in earlier years in eastern Europe. Even before the more recent statements of policy Governments were already turning their attention once again to tightening controls. It would therefore not be surprising if the newer priorities were reflected later in the year in the form of overfulfilments of plan in at least some branches of industry, and most probably in heavy industry.

This hypothesis has already been partially verified in the case of three countries. The reports on the operation of the Hungarian and Rumanian industrial plans in the first three months of 1955 reveal that each branch of industry overfulfilled its output plan for the quarter. In Hungary the degree of overfulfilment was around 5 per cent in the case of enterprises under the control of the Ministries of Metals and Engineering, Coal-mining, Chemicals and Power, and the building material enterprises of the Ministry of Building. For enterprises under the Ministry of Light Industry the degree of overfulfilment was only 1 per cent. In Rumania the overfulfilment percentages range from 1 per cent in light industry, 4 per cent in local and food industry to 10 per cent in electric power and electrical engineering. The plans for pig-iron and steel were not fulfilled though output increased by 7 per cent. Finally, in eastern Germany heavy industry by the end of the first quarter had already produced 23 per cent of its target output for the whole year, which is an unusually high proportion for this quarter. The moral that has already been drawn by the official commentators on the Hungarian first quarter experience is that it demonstrates that the targets had been set too low.

Appendix Table I

PLANNED AND ACTUAL OUTPUT IN ALBANIA, BULGARIA AND RUMANIA

	Unit	1953	1954		1955
		Actual	Plan announced at beginning of year	Actual	Plan announced at beginning of year
Albania					
Crude oil	Thousands of tons	200	..	235	254
Chrome ore		55	..	116	144
Cotton fabrics	Millions of m²	50	..	59	69
Bulgaria					
Lignite [a]	Millions of tons	8.0	8.7 *	8.6	10.0
Electric power	Million MWh	1.6	1.9 *	1.8	2.1
Cement	Thousands of tons	714	854 *	793	879
Cotton	Millions of metres	119	..	125	133
Rumania					
Mining					
Lignite [a]	Millions of tons	4.9	..	4.9	..
Crude oil		9.5	..	10.2	11.0
Iron ore		0.7	..	0.7	..
Copper ore	Thousands of tons	7.0	..	8.7	..
Natural gas	Billions of m³	3.5	..	3.7	..
Electric power	Million MWh	3.4	..	3.7	..
Basic materials					
Pig-iron	Thousands of tons	456	565	432	588
Crude steel		720	770	630	788
Chemicals					
Super-phosphate fertilizers [b]		18.6	..	55.7	..
Building materials					
Plate glass		33.0	..	38.6	..
Engineering					
Tractors	Thousands	5.1	5.3	5.3	..
Light and food industries					
Cotton and viguna fabrics	Millions of m²	192	210	205	242
Woollen fabrics		28.9	30.0	30.0	32.5
Silk and rayon fabrics		15.2	17.0	16.8	21.8
Sugar, refined	Thousands of tons	100	151	100 *	164

Sources : Economic Survey of Europe in 1954, Tables LV, LVI, LXI. Plans and Plan fulfilment reports.

a Including a small proportion of hard coal.
b Gross weight.

Appendix Table II

PLANNED AND ACTUAL OUTPUT IN CZECHOSLOVAKIA

Commodity	Unit	1953	1954		1955
		Actual	Plan announced at beginning of year	Actual	Plan announced at beginning of year
Mining					
Hard coal	Millions of tons	20.3	22.0	21.5	22.9
Brown coal		32.8	35.4•	36.1	39.4
Crude oil	Thousands of tons	196	212	202	..
Coke	Millions of tons	8.5	9.0•	8.8 [a]	..
Coal gas	Millions of m^3	868	..	937	..
Electric power	Million MWh	12.4	13.9	13.6	15.0
Basic materials					
Pig-iron	Millions of tons	2.8	3.0	2.8	..
Rolled products		2.9	3.3	3.0	..
Chemicals					
Sulphuric acid	Thousands of tons	312	..	343	..
Sodium hydroxide		61	..	70	..
Nitrogenous fertilizers [b]		38	45	42	59
Phosphate fertilizers [c]		74	89	90	109
Building materials					
Cement	Millions of tons	2.3	2.8	2.5	2.8
Lime		1.1	1.3	1.2	..
Bricks	Billions	1.3	1.5	1.4	1.6
Light and food industries					
Paper	Thousands of tons	317	327	330	..
Butter		34	38	36	43

Sources: Plans and Plan fulfilment reports: *Statistický Obzor*, No. 10/54; *Rudé Právo*, 26 November 1954, 18 December 1954, 6 January 1955, 3 February 1955, 14 and 22 March 1955.

a Alternative figure (derived from *Rudé Právo*, 23 March 1955): 6.3 million tons.
b In terms of nitrogen content.
c In terms of plant nutrient.

Appendix Table III

PLANNED AND ACTUAL OUTPUT IN EASTERN GERMANY

Commodity	Unit	1953	1954		1955
		Actual	Plan announced at beginning of year	Actual	Plan announced at beginning of year
Mining					
Brown coal	Millions of tons	175.0	193.0	183.8	203.4
Brown-coal briquettes		46.5	..	47.9	51.8
Electric power	Million MWh	23.0	26.0	24.6	28.6
Basic materials					
Pig-iron	Millions of tons	1.1	1.6	1.4	1.6
Rolled products		1.5	1.7	1.7	..
Chemicals					
Sulphuric acid	Thousands of tons	348	..	438	487
Calcined soda		285	..	356	431
Building materials					
Cement	Millions of tons	2.4	2.5	2.6	..
Engineering					
Tractors	Thousands	10.6•	13.0	13.0	..
Motor trucks		14.5•	24.0	16.0	..
Motor cars		16.4•	28.5	24.0	..
Light industry					
Knitwear	Million pieces	114 •	162	130 •	172
Leather footwear	Million pairs	18.0	26.5	19.8	27.0

Sources : Plan and Plan fulfilment reports; *Die Wirtschaft*, 27 January 1955.

Appendix Table IV

PLANNED AND ACTUAL OUTPUT IN HUNGARY

Commodity	Unit	1953	1954		1955
		Actual	Plan announced at beginning of year	Actual	Plan announced at beginning of year
Mining					
Hard coal	Millions of tons	2.1	22.7	22.0	22.9
Lignite		19.2			
Crude oil	Thousands of tons	830	1 118	1 194	1 545
Electric power	Million MWh	4.58	5.07	4.80	5.28
Basic materials					
Pig-iron	Millions of tons	0.72	0.86	0.82	0.85
Crude steel		1.54	1.68	1.49	1.57
Rolled products		0.84	0.89	0.82	0.85
Chemicals					
Nitrogenous fertilizers [a]	Thousands of tons	73	340	80	128
Other fertilizers [a]		155		160	192
Soap		21.4	25.1	25.7	..
Building materials					
Cement	Millions of tons	1.11	1.16	0.98	1.16
Engineering					
Steam locomotives	Thousands	0.20	..	0.23	..
Tractors		0.8	4.0	4.6	5.75
Threshing machines		—	1.0	0.95	1.05
Horse-drawn harrows		4.0	12.0	24.8	30.8
Horse-drawn drills		..	1.6	2.5	8.5
Motor cycles		14.3•	31.5 [b]	14.7•	19.2
Bicycles		136	316 [b]	174	219
Light and food industries					
Cotton fabrics	Millions of m²	209	220	227	..
Woollen fabrics		12.4 [c]	15.8 [c]	16.6 [c]	..
All shoes	Million pairs	10.1	12.3	13.3	15.2 [d]
All furniture	Million forint	79	..	134 [e]	182
of which : kitchen furniture	Thousand sets	1.4	..	14.9 [e]	26
Sugar	Thousands of tons	280	287	244	278
Confectionery	Million forint	450	550	630	700
Vegetable oil and margarine	Thousands of tons	70	85	79	..

Sources : Plans and Plan fulfilment reports; *Szabad Nép*, 27 January 1954; *Statisztikai Szemle*, No. 6-7, 1954, page 510; *Statisztikai Tájékoztató*, No. 1, 1954, page 42, No. 4, 1954, page 4; *Szabad Nép*, 15 and 30 January, 9, 11, 18 March and 4 April 1955; Statement by the Hungarian representative at the tenth session of the Economic Commission for Europe, 25 March 1955.

[a] Gross weight.

[b] Provisional Plan.

[c] Estimated from quantitative increase in three-quarters of the year, and percentage increase for the whole year.

[d] Plans for the first half of the year over the corresponding period of 1954 applied to the output for the whole year 1954.

[e] Provisional.

Appendix Table V

PLANNED AND ACTUAL OUTPUT IN POLAND

Commodity	Unit	1953	1954	1955
		Actual	Actual	Plan announced at beginning of year
Mining				
Hard coal	Million of tons	88.6	91.3	..
Lignite		6.9	7.2	..
Iron ore		1.3	1.6	..
Coke		7.9	8.5	9.8
Electric power	Million MWh	13.6	15.4	17.1
Basic materials				
Pig-iron	Millions of tons	2.3	2.6•	3.0
Crude steel		3.6	4.0	4.3
Rolled products		2.5	2.7	..
Chemicals [a]				
Sulphuric acid	Thousands of tons	428	484•	658
Caustic soda		82•	87•	102
Calcined soda		180•	191•	390
Nitrogenous fertilizers [b]		392•	466•	713
Superphosphates [b]		546•	606•	743
Rayon		..	..	22
Dyes		5.4	..	4.6
Carbon electrodes		..	..	45.4
Building materials				
Cement	Millions of tons	3.3	3.4	4.6
Engineering				
Railway wagons	Thousands	17.4	20.5	..
Motor trucks		9.5	10.5	..
Motor-cars		1.6	1.7	..
Machine-tools	Thousands of tons	20.3	26.4	31.9
Tractors	Thousands	6.9	7.7	..
Motor-cycles		13.7	19.8	..
Bicycles		303.4	373.2	..
Wireless sets		267.6•	307.7	446.2
Light and food industries				
Cotton fabrics	Millions of m²	498.7	523.6	555.0
Woollen fabrics		70.5	71.2	74.0
Rayon fabrics		68.0	74.8	..
Leather footwear	Million pairs	20.8	22.7	25.2
Paper	Thousands of tons	354	368	..
Raw sugar		1 105	1 039	1 174

Sources: Plans and Plan fulfilment reports; *Trybuna Ludu*, 18 and 24 March 1955; *Polnisches Wirtschaftsdienst*, Berlin, No. 9/1953; *Nowe Drogi*, No. 6/51, page 42, No. 12/54, page 23, and statement by the Polish representative at the tenth session of the Economic Commission for Europe, March 1955.

[a] The data published under this group have been obtained by inflating actual production in 1947 by the yearly increases published in the Plan Fulfilment Reports and by the Polnisches Informationsbüro, *Wirtschaftsdienst* No. 9/1953, Berlin, which are given on the base of 1947. The data published in the *Economic Survey of Europe in 1954*, page 269, were taken from *Nowe Drogi*, No. 12/1954, page 23, and where the year 1954 was given as expected production, with index numbers based on 1938.

[b] Gross weight.

Appendix Table VI

RETAIL PRICES IN BULGARIA

Prices in post-reform leva

Commodity	Unit	Prices			Index numbers
		September 1953	March 1954	April 1955	April 1955 (*December 1952 = 100*)
1. Food					
Rye bread	Kg.	1.65	1.45	1.45	59
Wheat bread	Kg.	4.10	3.60	3.60	58
Wheat flour	Kg.	5.70	5.30	5.30	60
Beef	Kg.	14.40	13.70	13.70	82
Veal	Kg.	18.00	17.10	17.10	81
Pork	Kg.	21.60	17.70	15.95	63
Mutton	Kg.	18.00	16.20	15.00	71
Butter	Kg.	23.10	23.10	20.80	76
Lard	Kg.	17.90	16.85	14.30	68
Sunflower oil	Litre	13.40	11.95	11.95	70
Rice	Kg.	10.00	10.00	9.00	90
Potatoes	Kg.	1.25	1.10	1.10	67
Cheese	Kg.	12.60	12.60	12.60	79
Eggs	Each	0.90	0.90	0.90	86
Beans	Kg.	11.70	11.70	10.55	69
Sugar	Kg.	9.60	9.60	9.60	100
Wine	Litre	5.95	5.40	5.40	..
2. Clothing					
Woollen cloth	Metre	161.00	127.65	108.50	..
Calico	Metre	30.60	22.35	19.00	49
Suit, men's	Each	970.00	776.00	698.40	67
Shirts, "Zephyr"	Each	60.00	48.00	43.20	..
Underwear	Each	25.80	21.50	21.50	..
Socks, cotton, men's	Pair	11.90	10.10	9.10	61
Socks, men's, inferior quality	Pair	6.30	5.40	4.60	..
Handkerchiefs	Each	3.60	2.90	2.90	..
Shoes, leather, men's	Pair	231.25	216.20	162.15	60

Sources: *Ráobotnichesko Delo* 28.3.1954 and 24.4.1955; *Economic Survey of Europe in 1953*, page 281; *Bulletin d'Information*, Conseil central des Unions professionnelles en République populaire de Bulgarie, Sofia, March 1954, No. 1.

INDEX NUMBERS OF FOREIGN TRADE OF WESTERN EUROPEAN COUNTRIES

In addition to articles reviewing the economic situation or discussing the economic aspects of specific questions of current interest, the Bulletin *publishes from time to time short articles of a more technical nature on problems of statistical definition and measurement. A previous article in this series, entitled " A Note on Index Numbers of Terms of Trade ", was published in the November 1953 issue of the* Bulletin. *The present article reviews briefly the theoretical basis of index numbers of foreign trade and describes the current practice in western European countries in the compilation of such index numbers.*

Foreign trade statistics are obtained from entries made by customs administrations in respect of the movement of goods that are internationally traded. Customs documents include a description of the goods, and details of the quantity, value, and origin or destination. The statistics obtained, derived from these documents, are finally produced in the form of returns, usually monthly or yearly, showing quantity and value, classified according to statistical or tariff nomenclatures.

When analysing international trade, such statistics and their derivatives are very often expressed in index number form. This article considers the general features of index numbers of foreign trade in western European countries, which serve to measure variations in volume and price, and describes their special characteristics as at the end of 1954 and the plans made by various countries to improve them in the near future.[1] These various data are summarized in the form of tables.

[1] The various countries have collaborated in this study by furnishing the secretariat with particulars of methods hitherto unpublished, and several countries have mentioned changes they hope to introduce shortly in the series they publish. Certain data are the result of an exchange of information with the OEEC.

1. General Characteristics of Index Numbers of Foreign Trade

A noteworthy feature of statistics of foreign trade [2] is the detailed and exhaustive character (apart from contraband) of the customs entries. Whereas in the case of wholesale or retail prices in practice only a small number of transactions can be recorded, it is possible at the customs declaration stage to take account of each and every transaction. The heavy bulk of customs documents does, of course, involve the necessity for a statistical re-grouping of the data.

Statistics of foreign trade are not all equally reliable *Quantities*, shown in units of weight, volume or number according to the type of product, are as a rule accurately known. Weight, however, may refer to the commodity alone (net weight) or to the commodity plus the packaging (gross weight).[3]

Declared value, on the other hand, may involve a considerable margin of error, owing to the large number of factors in the assessment, or to declarations deliberately falsified. The declared value of imports serves almost invariably as the basis for the calculation of customs duties (and for excise taxes imposed on imported goods). Hence the determination of declared value is of direct concern both to the importer and the exporter, whose goods are subject to such duties and taxes.

The Brussels Convention of 15 December 1950, to which a number of European countries acceded, stipulates that the value of goods is their open-market value in the importing country at the time when the duty becomes payable, excluding customs duty and import taxes. This definition, which differs from transaction value [4], includes importer's profit and

[2] Wholesale-price index numbers for goods in international trade are considered below.

[3] In some cases there are intermediate definitions—semi-net and semi-gross weight. However, as long as the definition is applied consistently, the actual measure adopted will have little bearing on the calculation of index numbers.

[4] For further details, see " External Trade: Transaction Value ", Memorandum prepared by the Secretary-General, eighth session of the United Nations Statistical Commission, item 4 of the agenda. This document illustrates the advantage of universally adopting the transaction value for inter-country comparisons. The definition of transaction value was approved by the Economic and Social Council on the recommendation of the seventh session of the Statistical Commission.

See also " Comparative Study of Methods of Valuation for Customs Purposes ", G/88, GATT, 2 March 1955, Geneva.

other costs incident to sale on the wholesale market of the importing country, which are all excluded from the c.i.f. transaction value. However, many countries, while keeping to this theoretical definition, use in practice the transaction value, which is roughly the price shown on the invoice, plus insurance and freight to the frontier. This was recommended by the Economic and Social Council.

Actually the rules applied vary considerably, as is well exemplified by France [1] where, according to law, the value of imports is the highest of the following four valuations :

(1) Purchase price plus freight as far as the frontier, plus insurance ;

(2) The domestic wholesale price in the country of origin, plus the charges mentioned under (1);

(3) Wholesale export price in the country of origin, plus the charges under (1);

(4) Wholesale price on the French home market, less import duty and other internal charges.

It is in the interests of the person making the declarations to understate the value so as to avoid paying part of the duty, but a rather careful check on value is kept by the customs officials, especially in the case of imports. The check may, however, be superficial where customs duty on goods is charged by weight, as in Switzerland, or where goods are exempt from duty. (The United Kingdom, for example, exempts a number of products from duty, including certain imports from areas enjoying preferences.)

In addition, there are many special systems: for example, pharmaceutical products are recorded in France at their retail price as shown on the package, in the Benelux countries at the retail price less 15 per cent, and so on. Furthermore, the movement of goods may not involve a sale where the goods are transferred between establishments in different countries belonging to the same firm (10 per cent of imports into the United Kingdom fall into this category). In such instances, the value is estimated arbitrarily by analogy with " normal " transactions.

For exports, the check is normally less strict, as the administration is mainly concerned with the exchange regulations with which the exporter must comply and with supervising the carrying out of economic agreements.

Quantities and declared values are shown in statistical publications in accordance with *nomenclatures*, which may be detailed or otherwise. Even where they are highly detailed, different commodities or different qualities of one and the same commodity will be grouped under the same heading.

Thus, for example, a heading apparently as homogeneous as " Sheep's and lamb's wool, greasy or backwashed " (item 262-01 of the SITC [2]) includes all grades of raw wool, merino or crossbred, fine or coarse. Manufactured products are still more heterogeneous in character. A heading such as " Cotton fabrics, other than grey : bleached, dyed, mercerized, printed or otherwise finished " (item 652-02 of the SITC) comprises a large variety of products, the difference in prices reflecting the wide range of grades. Yet the SITC, though not a highly detailed nomenclature, is nevertheless used as a basis for several national classifications.

In short, as far as the establishment of index numbers of foreign trade are concerned, the inaccuracy of declared values and the heterogeneous nature of the headings in the classification of goods are the major defects in the original statistics.

Index Numbers computed from Statistics of Foreign Trade [3]

If the items in any given nomenclature are grouped together the results are even more heterogeneous. Hence data on quantity (usually expressed in units of weight) do not in themselves give an accurate picture, and aggregates of groups of commodities or of total trade are meaningless for analytical purposes. The tonnage of goods obtained in this way has little value except for the study of transport problems.

On the other hand, aggregates of values have a very definite meaning and, apart from the statistical defects mentioned above, fluctuations in trade values lend themselves well to analysis. Over a fixed period, however, these variations may be influenced by two distinct factors: variations in the quantities and variations in the price of the goods under consideration. To distinguish these two components of value index numbers, almost all countries compute both index numbers of quantity (volume or quantum indices) and index numbers of price (unit value indices).[4]

[1] See *Bulletin mensuel de statistique*, I.N.S.E.E., New Series, Supplement, January-March 1952, pages 13 to 15.

[2] Abbreviation for Standard International Trade Classification. The SITC is a list of internationally accepted definitions of commodities, arranged in 570 items, 150 groups, 52 divisions and 10 sections. For further details see *Commodity Indexes for the Standard International Trade Classification*, Statistical Papers, Series M, No. 10, (indexed edition) United Nations, and *Standard International Trade Classification*, Statistical Papers, Series M, No. 10, (second edition) United Nations.

[3] See further on this subject, page 6 of the *Report to the Council on the Work of the Eighth Session*, Committee of Statistical Experts, League of Nations, Geneva, 1939, II A 5.

[4] The use of the term " unit value " is intended to make clear that the values are derived from trade statistics and that they are based on a concept different from that of market prices.

When computing volume index numbers, the price effect is removed by assuming that prices have remained unchanged between the current and the base period, and trade values for the two periods considered are measured with the same set of prices. The ratio between these constant-price values[1] is called the volume or quantum index. It can be assumed that the movements in the value index not explained by this index are due to price changes, which can thus be shown by an index number obtained by dividing the value index by the quantum index.[2]

Weighting Methods

The various types of index number differ principally according to the method of weighting used.[3] The two most usual methods are the well-known systems of Laspeyres (fixed weights of base period) and Paasche (weights of the current period—i.e., variable weighting).

The division of the value index by a quantum index of the Laspeyres type gives a unit value index of the Paasche type, and vice versa. These two types of index are not reversible, especially with respect to time, and hence difficulties arise when it is desired to change the base year of a series. Fisher's " ideal " index number (geometric mean of the Laspeyres and Paasche indices) is reversible, but, apart from the lengthy calculations necessary, it is not easy to interpret for economic analysis.

In practice, the most usual combination is a quantum index of the Laspeyres type with a unit value index of the Paasche type; but as the latter is based on variable weights, it reflects both price variations and changes in the composition of trade. For example, in a series of index numbers over a period of years, there may appear to be an increase between one year and the next, even when prices have not changed, simply because the country in question has expanded its exports of a product whose price is at a higher level, compared with the base year, than the average. As the commodity composition of foreign trade may vary considerably from one period to another, a unit value index of the Laspeyres type—as compiled by some countries—may after a certain lapse of time (or even very quickly because of seasonal variations) lose some of its meaning. The following table, showing both Laspeyres and Paasche unit value indices for the same countries, brings out the different effects of each weighting system.

Index Numbers of Unit Values with Fixed and Variable Weights [a]

(Exports 1950=100)

Period	Italy		Turkey	
	Laspeyres type: Fixed weights	*Paasche type:* Variable weights	*Laspeyres type:* Fixed weights	*Paasche type:* Variable weights
1951	120	123	124	119
1952	122	114	111	119

a In the case of Belgium, index numbers for October 1948 with base first quarter 1948=100 show, depending on the weighting system used, variations of the order of 10 per cent. See *Economic Bulletin for Europe*, Volume 5, No. 3, page 25.

The Significance of Unit Values [4]

Unit values derived from statistics of foreign trade are by their nature quite different from prices such as are used, for example, in the construction of wholesale-price indices. In fact, they do not refer to homogeneous goods but are obtained by dividing the values of groups of goods, which, as defined in the trade returns, are inevitably heterogeneous, by their corresponding quantities. Further, the values declared, as has already been noted, are subject to a considerable margin of error,[5] so that the unit value indices derived are even less accurate than quantum indices.

In view of the shortcomings of unit value indices, some countries have tried to replace them by wholesale price indices of foreign trade, using price quotations on the domestic market or basic prices in long-term contracts concluded by importers or exporters of the country concerned. This alternative, however, has two important disadvantages.

In the first place, regular quotations are available only for a limited number of commodities covering a small fraction of foreign trade. Generally, these goods are exclusively " primary products " and manufactured goods are not covered—hence they cannot be considered representative of the whole trade. It is only where trade is made up essentially of such commodities that a wholesale price index may be of some use. In the case of Finland, for example, as can be seen from Chart I, the wholesale prices of export goods and the export unit values are similar in movement, with a

[1] Usually multiplied by 100.

[2] It is, of course, possible to proceed in the opposite way, first of all computing an index number to measure the variations due to price; the quantum index will then be equal to the value index divided by the price index.

[3] For a detailed study of the calculation formulæ, see Irving Fisher, *The Making of Index Numbers. A Study of their Varieties, Tests and Reliability*, Boston and New York, 1922.

[4] For further details, see *Statistiques et indices du commerce extérieur*, I.N.S.E.E., Paris 1952, and R. G. D. Allen and J. Edward Ely (editors) *International Trade Statistics*, London and New York, 1953.

[5] What matters in the calculation of the indices is, moreover, the fact that this margin of error is not constant. For example, at some periods exporters may have an interest in under-stating the values as much as possible, in order to circumvent the exchange control. At other periods, they may have an interest in exaggerating them in order to obtain higher export premiums.

Chart I

UNIT VALUES OF EXPORTS AND WHOLESALE PRICES OF GOODS EXPORTED FROM FINLAND

Index numbers — 1935 = 100

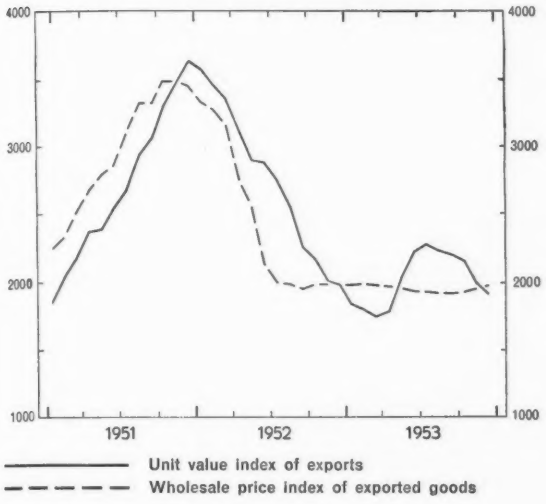
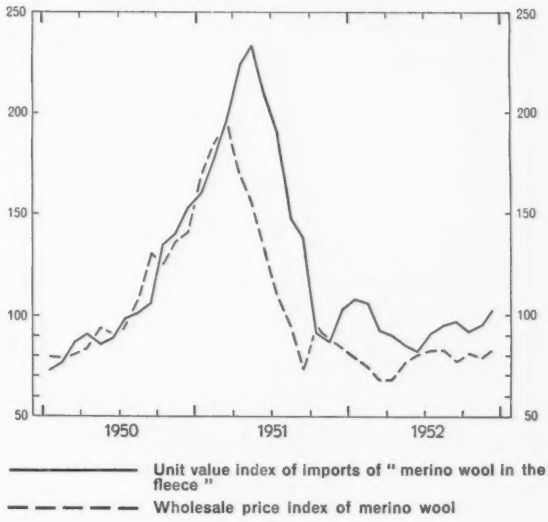


Chart II

UNIT VALUES OF IMPORTS AND WHOLESALE PRICES OF MERINO WOOL IN THE UNITED KINGDOM

Index numbers — 1950 = 100



certain time-lag. The wholesale prices, however, present a more even trend than the unit values.[1]

Secondly, since the prices at which transactions in international trade are actually made may have been fixed long before or long after the statistical registration, there may well exist a time-lag between the price in foreign trade and market quotations.[2] To illustrate this effect, Chart II shows for the United Kingdom wholesale prices and unit values of similar kinds of raw wool for a period of widely fluctuating prices. It may be seen from the chart that

(1) The unit values follow the wholesale prices, albeit imperfectly, with a time-lag of several months;

(2) The movement of the unit values appears to be more pronounced than that of wholesale prices.

Thus wholesale prices of goods which are internationally traded are of a certain interest on their own account and enable a check to be made on unit-value indices. But they cannot replace unit-value indices nor, more particularly, can they be used to obtain a quantum index from a value index.

[1] Although the series compared are compiled on the same base, there are important differences in the commodity composition and in the weighting system.

[2] A study of time-lags is often useful for the purpose of economic forecasting.

The Coverage of the Index Numbers

Quantities are not always specified for every commodity traded, and for a certain number of items they relate to goods of such a widely differing nature that they cannot reasonably be used for the calculation of unit values. Further, new products are not, of course, included in the trade of the base period. As a result, the indices rarely cover directly the whole trade, and it is necessary to make estimates for the products that are excluded.

If the indices are constructed in such a way that the value index equals the product of the quantum index and the unit-value index, adjusting one of the indices automatically implies adjusting the other.

If, for example, the quantum index is calculated directly and the unit-value index derived from it, failure to correct for incomplete coverage tacitly implies that the variations in the volume of the products excluded are the same as those for the products included in the computation, which is hardly likely to be the case. One method of correction would be to assume that the volume of products which are excluded varies in the same way as that of certain related products which are included in the calculation.

In point of fact, it is the practice of many countries to resort to two methods of correction based on analogy with price variations. The assumptions are either

(*a*) That the prices of the products not included vary in the same way as the average price of the products included, or

(*b*) That the prices of products excluded vary in the same way as those of certain related products included in the calculation, for example, that variations in the prices of cotton tissues are similar to those of cotton yarn.

The quality of the indices clearly depends on the selection of commodities to be included (which should be as homogeneous as possible), on their number (which should cover an adequate part of the total trade), and on the method used to correct for incomplete coverage. The inclusion in a quantum index of groups of products which are too heterogeneous,[1] in order to achieve a wider coverage, will lead to spurious results.

Index Numbers by Commodity Groups and by Monetary Areas

General index numbers for the total of foreign trade are inadequate for many purposes. Nearly all countries therefore compute indices for commodity groups, adjusted nevertheless for incomplete coverage. Certain commodity groups, in particular manufactured products such as machinery, are very heterogeneous and the corresponding index numbers, even though corrected for incomplete coverage, are not very reliable.

Moreover, a commodity group selected to meet the needs of one kind of analysis should also be suitable for use in connection with other economic index numbers. From this point of view, the foreign trade nomenclature is not always satisfactory. In some cases commodity groups are defined according to the stage of production reached, at others by sector of use. This raises the problem of arriving at the same index for the total. It means, in effect, correcting for incomplete coverage before regrouping the series in accordance with one classification or another.

Again it may be desirable to compute index numbers by geographical regions; for it is not sufficient to assume, for example, that the index of unit values for total trade applies to each region of origin or destination. Indeed, actual prices, qualities, freight hauls and commodity composition (in other words the weighting system) vary considerably from one zone to another.

In the case of imports these disadvantages are such that it is necessary to make direct computations by area of origin.

For exports, differences between unit values by areas of destination may be less important; the commodities exported come from the same country and often it may be assumed that prices by country of destination are much the same for a particular group of products.[2] Differences in prices by area of destination for commodities as a whole are largely due, therefore, to differences in the composition of exports to each area. Consequently, calculations based on the assumption that the unit values for elementary commodity series vary to the same degree with respect to each area may be of some value.[3] It then only remains to weight these elementary unit-value series by exports to each area. The reliability of the computations depends then on the number of elementary series used.

Apart from the time taken for such calculations, direct indices by areas have a serious disadvantage. The total index resulting from the combination of indices by area is not equal to the total index directly calculated, even when the commodities included are identical for each index.[4]

Correction for incomplete coverage will furthermore be more refined in the computation by area than for the index as a whole, since the assumption will be made that the prices of products not covered by a particular group vary not as related products in total imports, but as those related products which come from the same region.

Hence it is necessary either to publish two different series for total trade, one resulting from a combination of indices by areas and the other calculated directly, or to calculate all the area indices for each period under consideration as well as the total index which results from them.

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[1] As for example item 899-99 of the SITC: manufactured articles not elsewhere specified.

[2] Except, of course, where there is price discrimination.

[3] See *Economic Survey of Europe in 1953*, page 308, and *Board of Trade Journal*, 1 August 1953, page 220.

[4] Suppose, for example, that all foreign countries are divided into two groups, A and B, and quantum import indices of the Laspeyres type are calculated for each of these areas. A weighted average of these two indices will differ from a directly calculated total index if the unit values for any commodity in the base period are different for A and B and if the relative amounts coming from each of the areas change. In actual fact, matters are treated as if, for example, wheat coming from A and wheat coming from B were two distinct products.

It is also possible to compute indices by geographical areas with subdivisions by commodity groups, but of course the disadvantages indicated above will multiply. Such indices are by-products of indices by area but their reliability varies a good deal between groups because of wide variations in coverage.

2. Recommendations of International Organizations

In 1939 the Committee of Statistical Experts of the League of Nations made a number of recommendations concerning indices of foreign trade.[1]

In the belief that indices constructed from price quotations were inadequate, they suggested that indices should be established on the basis of statistics of special trade (excluding gold). They recommended changing the base year fairly often, so as to compensate for the rather quick " ageing " of the indices and also that indices of unit values of the two major types (Laspeyres and Paasche) should be calculated from time to time as a check. Lastly, they put forward the idea of publishing, in addition to total indices, indices by commodity groups and in particular by groups corresponding to the abridged classification according to stage of production and use of the " Minimum List of Commodities for International Trade Statistics." [2]

Ten years later, at the first meeting of European statisticians [3] and the fourth session of the Statistical Commission of the United Nations,[4] efforts were made to encourage the adoption of a post-war weighting system (if possible fixed). At the same time, it was suggested that a comparison should be made of the level of trade between pre-war and the new base year, if necessary on several weighting systems. Among other recommendations adopted were the necessity for making corrections for incomplete coverage,[5] and the importance of compiling separate volume indices of commercial trade with each of the principal suppliers or customers.

The eighth session of the Statistical Commission of the United Nations (in April 1954) again took up the examination of these questions and, because the SITC was being more generally adopted by countries, recommended that commodity group indices should be calculated on the basis of sections of that nomenclature, with a possible subsequent regrouping into four classes, namely—

(*a*) Food, beverages and tobacco (sections 0 and 1 of the SITC);

(*b*) Other manufactured goods (sections 5, 6, 7 and 8);

(*c*) Raw materials other than fuels (sections 2 and 4);

(*d*) Fuels (section 3).

The desire was also expressed to see class (*b*) broken down into consumer and producer goods.

The Commission also took up the question of periodic checking of the calculations and of studying the principal causes of error, first the weighting system, which is necessarily to some extent arbitrary, and, secondly, the unit values, which may lose their meaning if the composition of the detailed headings of products changes too much. If these questions are reconsidered fairly often, countries should be able to decide whether or not it is desirable to change the base.

[1] *Committee of Statistical Experts' Report to the Council of Work of the Eighth Session*, pages 5 to 10. Series of League of Nations, Publication II, Economic and Financial, 1939, II A 5.

[2] *Op cit.*, page 9.

[3] Held at Geneva in March 1949 jointly with the Economic Commission for Europe and the Statistical Commission of the United Nations (Document E/CN.3/Conf.1/3, 6 April 1949).

[4] Documents E/1312, E/CN.3/82, 20 May 1949.

[5] Methods of adjustment for incomplete coverage of volume indices may be found with practical examples in " Methods of adjustment for incomplete coverage ", *Indices of Quantum in International Trade*, Statistical Office of the United Nations, Statistical Papers, Series M, No. 3, 1949.

3. Indices of Foreign Trade calculated by Western European Countries [6]

In this section, it is proposed to examine the characteristics of index numbers in existence at the end of 1954 and to consider forthcoming changes proposed by countries.

Publication of Indices

Of the 19 western European countries, 16 regularly publish both quantum and unit value indices (see Table 1). Some countries have more than one series. Thus, in Belgium three series are prepared for the Belgium/Luxembourg Economic Union, one by the National Bank of Belgium, one by the National Institute of Statistics and a third by Louvain University. Portugal also publishes several series, one of which, on a 1950 base, is especially calculated for the

[6] In the absence of information on the method of construction of indices in eastern European countries, it has not been possible to include those countries in this analysis.

Table 1

METHOD OF COMPUTATION AND PUBLICATION OF THE INDICES

Country and series	Computation formula [a]		Number of elementary series		Direct (D) or indirect (I) computation		Adjustment for incomplete coverage [b]	Value = volume X unit value	Periodicity monthly (M) quarterly (Q) annually (A)	Delay publicat (week
	Volume	Prices	Imports	Exports	Volume	Unit value				
Volume and unit values										
Austria	L	P	567	567	D	I	not required	yes	M	4
Belgium-Luxembourg										
National Bank	L	P	570[c]	570[c]	D	D	no	no	A	variab
Institute of Statistics: monthly	L	P	296	271	D	I	no	no	M	12
annual	L	P			D	I	A	yes	A	..
Louvain University	L	P	139	139	D	I	no	no	M	9
Denmark	L	P	5 200	4 000	D	D	not required	yes	Q, A	10–12
Finland	P	L	221	75	I	D	A	yes	cumulative [d]	3–4
France	L	P	212	246	D	I	B	yes	A, Q, M [e]	3–4
Western Germany	L	P	*f*	*f*	D	I	B	yes	M, Q, A	4
Ireland, monthly	A	A	387	82	I	D	A	yes	M	7
annual	F	F	336	79	I	D	A	yes	A	..
Italy	L	L	972	958	D	D	B	no	M, A	9
Netherlands	L	P	671	381	D	I	B	yes	M, A	6
Norway	L	P	808	421	I	D	B	yes	M	6
Portugal, OEEC series	L	L			D	D	no	no	Q	8–11
Spain	L	P	110	60	D	I	A	yes	M, A	13–15
Sweden, quarterly	F	F	171	129	I	D	B	yes	Q	6
annual	F	F	280	185	I	D	B	yes	A	35
Switzerland	L	L	1 164[g]	1 164[g]	D	D	not required	no	M and cumul.	1
Turkey	L	L & P	64	41	D	D	A	yes	M, A	5
United Kingdom, monthly (prices)		A	120	150		D	not required	no	M	4
volume and prices	L	P	*h*	*h*	D	I	B	yes	M [e], Q	5–6
Wholesale prices of foreign trade										
Denmark		L		13						
Finland		L	73	29					M	2
France (imports only)		L	43						M	3–4
Sweden		L	204	167					M	4
									M	3

a Laspeyres (L), Paasche (P), Fisher (F), moving anterior weights (A).

b Assuming that prices for the commodities not covered vary: (A) As those for the aggregate of commodities covered; (B) As those for certain related commodities.

c The index is based on 570 S.I.T.C. items, supplemented by certain tariff items.

d Also indices are published by months for unit values, by quarters for volume.

e Volume indices only.

f Most items of the detailed nomenclature (several thousands).

g For unit values, the number of series is 219 for imports and 109 for exports.

h Each item for which quantity is given (several hundreds).

OEEC. The United Kingdom gives two series of unit values (one monthly, the other quarterly). Lastly, Turkey calculates two series of unit values of different types.

Further, Denmark, Finland and Sweden publish indices of wholesale prices in foreign trade. In the case of Western Germany and France, these indices exist for import goods only.

The base period of the index numbers varies a good deal from country to country (see Table 2). The base year most frequently selected is 1949 (five series), other years being chosen for two or three series only. For eight of the series, the base is still a pre-war period.[1] Only one series is computed on a moving base (National Bank of Belgium). The choice of the base period in each country appears to be influenced by that chosen for other economic series, notably for indices of production.

The frequency of indices is most usually monthly ; Denmark, Portugal and Sweden publish only quarterly indices. For certain series annual indices in a strict sense do not exist, but only averages of the monthly or quarterly indices.

[1] Table 4, however, indicates that in all countries intending to make a change a post-war base is envisaged.

Table 2

COVERAGE OF COMMODITIES INCLUDED IN THE COMPUTATION OF THE INDICES

As percentage of total trade

Country and series	Base period	Imports					Exports				
		Base period	1950	1951	1952	1953	Base period	1950	1951	1952	1953
Volume and unit values											
Austria	1937	100	100	100	100	100	100	100	100	100	100
Belgium-Luxembourg											
National Bank	moving	..	..	93	95	..	..	..	95	96	..
Institute of Statistics	1948	79	73	73	73	69	78	73	73	73	73
Louvain University	1936-38	80	84	84	..	82	80	85	86	..	86
Denmark	1949	100	100	100	100	100	100	100	100	100	100
Finland	1935	62	61	60	58	58	84	73	77	71	62
France	1949	94	93	89	87	85	91	89	86	79	78
Western Germany	1950	..	..	..	..	..	..	..	..	..	..
Ireland	1930	74	..	..	..	78	80	..	..	..	88
Italy	1953	..	..	89	90	88	..	..	90	92	89
Netherlands	1948	87	81	79	79	78	86	75	70	67	65
Norway	1949	78	77	81	82	82	85	88	92	95	93
Spain	1948	72	66	71	69	..	71	70	69	70	..
Sweden, annual	1949	72	71	70	71	66	77	74	79	75	76
quarterly	1949	75	74	74	72	69	78	76	81	79	79
Switzerland	1938	100	100	100	100	100	100	100	100	100	100
Turkey	1938	..	49	51	56	48	89	90	84	89	90
United Kingdom, quarterly	1950	..	..	95	..	95	..	..	81	..	80
Wholesale prices of foreign trade											
Denmark	1935	57	57	58	55	54	74	63	61	60	63
Finland	1935	61	..	..	..	..	93	..	..	..	..
France (imports)	1949	46	..	..	..	..					

The Computation Formula

As can be seen from Table 1, the vast majority of volume indices are of the Laspeyres type; only Ireland and Sweden [1] calculate Fisher indices and Finland a Paasche index. In the case of unit values, the diversity of formulæ is much greater: half the series are of the Paasche type, five of the Laspeyres type, the rest of the Fisher type or weighted by the preceding year. All wholesale price indices employ fixed weights.

For a certain number of countries it is possible to check the index numbers of unit values using different methods of calculation, or against indices of wholesale prices. This is so for the following countries: Western Germany (imports), Belgium-Luxembourg, Denmark, Finland, France (imports), Italy, United Kingdom, Sweden and Turkey.

[1] In point of fact, Sweden calculates Fisher indices with weights that are a cross between the current year and the preceding year.

Only one country adjusts quantum indices for seasonal variations—Finland. However, Sweden also intends to make such an adjustment in the near future.

The Coverage of Commodities included in the Calculations

Table 2 shows the percentages of commodities covered by the indices in the base year and in some recent years. Three countries (Austria, Denmark, Switzerland) state that they include directly in their calculations the whole of trade. It would appear, however, that this implies that, apart from the question of new products, certain items are so heterogeneous that the derived unit values can have little meaning. Denmark, on the other hand, carefully estimates prices for goods which are too heterogeneous by the use of price quotations or prices in long-term contracts, and the prices of new products are assumed to vary in the same way as related products.

For other countries, it should be generally noted that the percentage coverage declines the further one moves away from the base year.[1] This decline, which is rather rapid, is a sign of the " ageing " of the series. It should also be noted that the indices of wholesale prices in international trade have a smaller coverage than those of unit values.

[1] This would be even more true if one could compare successive years not with the base year but with the year in which the series was introduced.

The percentage coverage may fluctuate during the year. An example of this is given by the volume index of imports into France from French overseas areas by quarters for the year 1951, where the percentage coverage was 92.6, 90.1, 90.5 and 94.4 respectively. This clearly goes to prove the need to adjust indices for incomplete coverage.

The commodities included in the calculations are classified into a varying number of elementary groups according to the country. The number of elementary series varies from 41 for Turkish exports to 5,200 for Danish exports (several thousand for Western Germany). In some cases, a rather small number is permissible since a few essential products represent a large part of the trade, but some indices seem clearly inadequate in this respect (for example, the 64 basic import groups of Turkey, which include many categories of manufactured products).[2] It should be

[2] It should be emphasized, however, that, in the monthly series of prices for the United Kingdom, the number of products included has been deliberately restricted in order to achieve homogeneity. It was considered preferable to take a limited number of significant series.

Table 3

INDICES BY COMMODITY GROUPS

Country and series	Volume (V) unit values (P)	Type of classification	Number of group indices	
			Imports	Exports
Austria, annual	V[a], P	By SITC divisions	49	49
Belgium-Luxembourg				
National Bank	V, P	1. By sector of use[b]	3	3
	V, P	2. According to the SITC	52 divisions plus 18 sub-groups	
Institute of Statistics	V, P	1. By stage of processing[c]	3	3
	V, P	2. By sector of use	5	5
Louvain University	V, P	By sector of use	4	3
Denmark, annual[d]	V, P	By sector of use subdivided into 3 sub-groups by stage of processing	44	44
Finland	V, P	By commodity groups	8	2
France, monthly	V	By sector of use	3	3
quarterly	V, P	1. By sector of use	7	7
"	V	2. By commodity groups	28	30
Western Germany, monthly	V, P	1. By commodity classes (exhaustive)	8	5
	V	2. By commodity groups (not exhaustive)	40	33
annual[a]	V	By commodity groups (exhaustive)	207	207
Italy	V, P	By sector of use subdivided by stage of processing	12	12
Netherlands	V	Imports by sector of use and exports by sectors of production	3	9
Portugal (one of the series)	V, P	By commodity groups	16	16
Sweden	V, P	By commodity groups	16	15
Switzerland	V, P	1. By stage of processing	3	3
	V	2. By commodity groups	—	36
United Kingdom, quarterly	V, P	According to the SITC (selected divisions and sub-groups)	39	40
monthly	P	By SITC commodity classes	4	5

[a] Expressed as values in 1937 prices for Austria, and in 1950 prices for western Germany.

[b] For instance, consumer goods, investment goods.

[c] For instance, raw materials, semi-manufactures, finished manufactures.

[d] Since 1 January 1954, quarterly indices by SITC sections have been computed.

remembered, however, that very detailed calculations often involve long delays in publication.

Almost all countries make an adjustment of the indices for incomplete coverage; only three series remain completely uncorrected and for a fourth country, the correction is made only to annual indices. For indices of wholesale prices, the very nature of the calculations prevents such adjustment. As for the other series, half are corrected on the assumption that movements of prices in items that are not covered are the same as for those for the included products as a whole, and half, with greater refinement, on the assumption that they move in the same way as certain related products. In cases where the series are not adjusted, the relationship expressing the value index as the product of the quantity and the price index numbers is clearly not fulfilled. In other cases, the nature of the indices is such that this relationship cannot be fulfilled: Italy, Portugal (OEEC), United Kingdom (monthly) and Switzerland. For the other series, that is three-quarters of the total, this relationship is valid and is often used to deduce one of the indices from the index of value divided by the other index. Direct calculation of the volume index is more common than direct calculation of the index of unit value.

Indices by Commodity Groups and Monetary Areas

Two-thirds of the countries publish indices for commodity groups. Table 3 shows the kind of classification of the indices and the number of series published. Partial indices for volume are more numerous than those for price. Several indices based on the SITC already exist, and thus comparison by groups between countries is facilitated. Besides this classification, a number of countries calculate indices according to the stage of preparation or transformation of products or by sector of use or sector of production.

Indices by geographical or monetary areas are still very rare [1]—France publishes all indices separately for its trade with the French overseas union and with foreign countries, and the United Kingdom publishes global indices every quarter for trade with the sterling and the dollar areas.[2]

[1] The annual series of the Bank of Belgium distinguishes for certain periods trade with the EPU, Canada and the United States, but these distinctions have been dropped for the time being. *Cf. Bulletin d'Information et de Documentation*, June 1952.

[2] In order to do so, the United Kingdom calculates import price indices according to area of origin, whereas those used for exports result merely from a weighting of the detailed total indices by the corresponding values of exports to different areas.

Combined Indices of Trade for Several Countries

Except for the United Kingdom, which calculates indices of trade for the whole of the sterling area with countries outside that area,[3] this type of index is constructed only by international organizations.

Thus, the present *Bulletin* gave, until recently, a combined index for 16 western European countries, obtained by weighting national indices. The annual SURVEYS contain indices in which the trade of western Europe with itself and with various overseas areas is distinguished.[4]

The Monthly Bulletin of Statistics of the United Nations, in the February, May, August and November issues, gives combined indices of exports from some ten regions and for the world as a whole.

Furthermore, the OEEC *Foreign Trade Statistical Bulletins*, Series I, give indices for member countries of that organization, taken as a whole, covering their trade among themselves and with other countries.[5] In the December 1954 issue of the same publication there were published for the first time combined trade indices for the member countries, with twenty geographical or monetary areas.[6] In addition, indices of total trade of member countries are given by sections of the SITC. All these indices are annual (1950=100, 1951 to 1953). They are as reliable as can be expected from this kind of calculation.

Proposed Improvements to Series

Various countries intend to modify their series, and Table 4 gives some information on this subject. It can be seen that these changes are in line with the recommendations made at various times by the Statistical Commission. Since 1949, much progress has been made towards improving the comparability of series between countries.[7]

[3] *Cf. Board of Trade Journal*, 23 January 1954.

[4] For further details, see in particular *Economic Survey of Europe since the War*, Table XV and Annex B, pages 369 to 370.

[5] The price index for intra-member-country trade is an index of exports obtained by applying national total export indices to the value of trade of each country with the other member countries.

[6] The price indices are based on national data of quantities and values (classified according to the SITC and other more detailed headings) from seven main countries. These are then applied to the value figures from all member countries in order to obtain the volume indices. For further details see *op. cit.*, page 90.

[7] In 1949, the base period in most countries was a pre-war year. Many of the countries did not calculate unit-value indices nor did they make adjustments for incomplete coverage. Finally, it is only after this date that some countries have even begun to prepare index numbers of foreign trade. For further details reference should be made to the working papers of the first meeting of the Conference of European Statisticians, Geneva, 1949.

Table 4

PROJECTS UNDER STUDY IN VARIOUS COUNTRIES

Country and series	General change in method	New base period	Group indices based on the SITC	Indices by areas [a]	Observations
Austria	no	1952	yes	no	For unit values only
Belgium-Luxembourg :					
National Bank	..	..	..	yes	Quarterly indices planned
Institute of Statistics	no	1953	not yet	no	
Louvain University	..	..	..	yes	
Denmark : volume and unit values [b]	..	1953	yes	no	
wholesale prices	yes	1949	yes	no	
Finland : volume and unit values	yes	1952	yes	no	New index will not be seasonally adjusted
wholesale prices	yes	1949	yes	no	
Netherlands	yes	yes	yes	yes	
Norway	no	no	yes	no	
Sweden, wholesale prices	no	1949	yes	no	
Switzerland [c]	yes	1949	no	no	
Turkey	no	yes	yes	no	

[a] Geographical or monetary areas.

[b] Under way.

[c] These changes are in effect from 1 January 1955.

For several countries, the indices will be calculated without change of method (the formula for calculation and the commodities included remaining the same). On the other hand, all the series to be modified will be based on a post-war year. The majority of them will include indices by commodity groups defined according to the SITC and the almost universal adoption of this nomenclature is the most striking feature of the proposals shown in Table 4. It will be noted, finally, that for three series plans for separate area indices are being studied.

ARTICLES DESCRIBING THE METHOD OF CONSTRUCTION OF THE INDICES

Quantum and Unit-value Indices

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Belgium: National Bank. *Bulletin d'information et de documentation*, Département d'Etudes et de documentation, Banque nationale de Belgique, August 1954.
Institute of Statistics. *Bulletin de Statistique*, December 1949, page 1887, and April 1954.
Louvain University. *Statistiques rétrospectives du Service mensuel de Conjoncture de l'I.R.E.S.*, 1951.

Denmark: *Danmarks Vareindførsel og-Udførsel*, 1952, pp. 9-13.

Finland: *The Monthly Bulletin*, Bank of Finland, April 1939.

France: For volume *Bulletin mensuel de statistique*, new series, October-December 1951 supplement ; for unit values *op. cit.* January-March 1952 supplement, pp. 12-22.
Statistiques et indices du commerce extérieur, I.N.S.E.E., 1952.

Western Germany: " Neuberechnung von Aussenhandelindices für die Bundesrepublik Deutschland auf der Basis 1950, Berechnungsmethoden und Aussage des Indices ", *Statistische Berichte*, Arb. Nr. : V/33/1.
Wirtschaft und Statistik, May 1949, page 32 ; September 1949, page 258 ; October 1951, page 391.

Ireland: *Trade and Shipping Statistics*, 1938 (P. No. 500), p. xiii.
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Norway: *Statistiske Meddelelser*, No. 12, 1949, page 641 *et seq.*
Statistiske Meldinger, No. 5, 1951, pp. 165-169 ; No. 5, 1953, pp. 97-99.

Portugal: *Comercio externo*, Volume I, 1952, pp. xi-xii.

Spain: *Boletin de estadistica*, October-November, 1950, pp. 104-105.

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Switzerland: Statistique du Commerce Suisse, *Rapports annuels*.

Turkey: *Konjonktür*, No. 6, June 1940, pp. 13-15.

United Kingdom : Quarterly indices, *Board of Trade Journal*, 15 November 1952, pp. 921-928; indices by areas, *op. cit.*, 1 August 1953; monthly indices of unit values, *op. cit.*, 6 March 1954, p. 467.

Wholesale Price Indices of Foreign Trade

Denmark: *Statistiske Efterretninger*, 31 January 1936.

Finland: *Tilastokatsauksia*, No. 12/1938 ; No. 2/1939.
Tilastollisia Tiedonantoja, No. 39.

France: *Les statistiques de prix en France et en divers pays étrangers*, I.N.S.E.E., 1953.
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International Sources

United Nations: *Monthly Bulletin of Statistics*, Definitions and explanatory notes, 1950 supplement, pp. 71-81; 1954 supplement, pp. 102-118.

Organization for European Economic Co-operation, Paris: *Statistical Bulletin—Foreign Trade*, Explanatory notes, document 22028 (undated).
O.E.E.C. *Statistical Bulletins*, Definitions and methods, Paris, 1952.

CORRIGENDA

to the

Economic Survey of Europe in 1954 (E/ECE/194)

Geneva, 1955

Chapter 2: **Page 42,** table entitled *Gross Output of Industry*, Poland, 4th column—For " 112 " read " 109 ".

Chapter 3: **Page 66,** Table 33, 1940, 3rd column—For " 17.5 " read " 18.2 ".

Page 67, Table 34, 1954 Plan, 3rd column—For " 8.0 " read " 8.0[c] ".
Footnote to read: [c] Published in the original text as " about 8 millions ".

Also, for the year 1954, 2nd column—For " 360 " read " 360[d] ".
Footnote to read: " [d] In addition, 340,000 trainees graduated from agricultural mechanization schools under the Chief Administration of Labour Reserves. Comparable figures are not available for earlier years."

Chapter 5: **Page 108,** 2nd paragraph, 7th line—Delete the passage beginning " agreements. The figures so derived . . ." and ending ". . . composition of the trade " and replace by " agreements and other information. The explanatory note to Table 67 should be consulted for further qualifications regarding the very rough and tentative nature of the estimates."

Page 117, Table 66, *Imports*—Line *Machinery and equipment* should read: " U.S.S.R. 1953, 26-28[b] ". For East Germany, Czechoslovakia, Hungary and Rumania delete the 1953 figures and replace by the sign "..". *Exports*—Line *Machinery and equipment:* U.S.S.R. 1953 should read : " 19-21[b] ". Delete footnote [e].

Section of text entitled *Trade in Machinery and Equipment*—The first paragraph and related footnotes should read : " The impressive part played by machinery and equipment in the trade of the eastern world market is clear from the fact that these products now make up more than one-third of total exports moving within this group of countries,[1] compared with a share of about one-seventh of exports in the western world market.[2] From the rough estimates given in Table 67 it would appear that eastern Germany was already by 1953 the largest supplier of capital goods on the eastern European market,[3] closely followed by the U.S.S.R., which also stands out as the largest single importer in the group. Trade directly between the two accounts, moreover, for at least one-half of eastern Germany's exports and of the U.S.S.R.'s imports of machinery and equipment."

" [1] *Cf.* A. Chistyakov, *op. cit.*, page 56. This share, which literally refers to the ' total trade of the countries in the Socialist camp ', would indicate a figure of approximately $2.1 billion if applied to the total exports to one another of all the countries in the group. It will be noted that this figure corresponds to the upper range of the estimates given in Table 67.

" [2] *Cf. International Trade, 1953*, G.A.T.T., Geneva, June 1954, page 140.

" [3] The figures for exports by eastern Germany do not include reparations deliveries (consisting mainly of machinery and equipment) to the U.S.S.R., which were terminated at the end of 1953."

And the third paragraph should read: " While Poland and Rumania have developed their exports of machinery and equipment to the U.S.S.R., as well as to other countries in the area, these exports are substantially exceeded by their imports, Poland being, partly because of the equipment credit described above, the largest importer of these goods from the U.S.S.R. among the eastern European countries. Mainland China is, however, the largest importer of Soviet equipment, credits here also playing an important role in financing the trade, and has become a major market for eastern Germany as well."

Chapter 5 (continued): **Page 118,** Substitute the following for Table 67.

Table 67

TRADE OF THE EASTERN WORLD MARKET IN MACHINERY AND EQUIPMENT IN 1953 [a]

Millions of current dollars

Countries of the eastern world market	Trade within the group (Rough estimates—see explanatory note below)		Trade with western European countries [b]	
	Exports	Imports	Exports [d]	Imports
U.S.S.R.	550– 600	about 1/3 of total	4	107
Eastern Germany	700– 800		24	16
Czechoslovakia	320– 360		20	17
Hungary	175– 200	rather more than 1/3 of total [c]	4	11
Poland	80– 100		—	51
Rumania	25– 40		—	16
Bulgaria	—		—	4
Other countries of the group [e]	—	rather less than 1/3 of total	—	12
Total	1 850–2 100	1 850–2 100	52	234

Sources: See explanatory note below and Appendix B.

EXPLANATORY NOTE. — The figures given for trade within the group, though still to be regarded as rough estimates of probable orders of magnitude, incorporate certain major revisions on the basis of a statement made by the representative of the U.S.S.R. to the tenth session of the Economic Commission for Europe (March 1955) to the effect that Soviet exports of machinery and equipment to other countries of the eastern world market in 1953 were approximately three times as great as the figure of $200 million published in the printed English edition, as well as the provisional Russian and French editions, of the present SURVEY. (That figure, derived from an article in *Vnyeshnyaya Torgovlya* No. 11, 1954, was, however, accompanied by a warning in the SURVEY that it might be a considerable understatement in the light of other information in official Soviet sources. See English edition of this SURVEY, page 118, Table 67, footnote *c*.)

The export figures for other countries shown in the table have not been revised as compared with those appearing in the English edition of this SURVEY, but for the most part they appear to be firmly based on official estimates giving the share of machinery and equipment in exports.

In general, the information available on imports of machinery and equipment in trade within the group (which, by definition, must equal exports in total amount) is much less complete than that available on exports, and the information contained in the table on this subject can be regarded only as a very rough estimate of the probable distribution and is subject to revision in the light of any further information that may become available.

a Includes machinery of all kinds, machine-tools, mining and oil-drilling equipment, construction equipment, power generators, switch gear and other electric apparatus and appliances; precision and optical instruments; railway and road vehicles, aircraft, and ships and boats.

b Data on trade with western Europe are from the trade statistics of western European countries (with the result that the figures show "f.o.b." values for imports and "c.i.f." values for exports).

c Imports of machinery and equipment by Poland (officially reported to make up 40 per cent of its total imports in 1953) may be placed at some $250 to $275 million; those by Rumania may be more roughly estimated at around one-half of that amount; and those of other eastern European countries probably fall within the range $50 to $100 million in each case.

d In addition, the eastern European countries and the U.S.S.R. are exporting increasing quantities of machinery and equipment to overseas countries.

e Mainland China, Mongolia, North Korea and Albania.

Page 121, *Trade in Fuels*, 2nd paragraph, 9th line—Delete the passage beginning "The Rumanian petroleum . . ." and ending "considerable portion" and replace by "Part".

Page 122, RECENT TRENDS IN TRADE, 4th paragraph, 18th line—Delete the passage beginning "since, as noted" to the end of the sentence.

Page 131, Appendix to Chapter 5, *Autarky or International Division of Labour*, 3rd paragraph, 3rd line—For "Party teachings" read "some teaching material, in".

Page 132, *A Classical Formulation of the Theory of Autarky*, 3rd paragraph, 1st line—For "some Party teachings evolved a 'socialist' theory" read "in some teaching material a 'socialist' theory was developed,".

Page 190, Footnote *1*, 3rd line—For "tax evasions" read "evasion of taxation on earnings"; and 5th line, after "30 per cent" insert "of declared profits".

Appendix A: **Page 262,** Table LIV, Radio receivers, 3rd column—For "4 527" read "3 767".

Appendix B: **Page 281,** *Gross value of food processing*, 6th line—For "1953 Plan" read "1955 Plan".

Page 293, TRADE OF THE EASTERN WORLD MARKET IN MACHINERY AND EQUIPMENT (Table 67)—Delete section 4.

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